# CRM Orientation:
# Conceptualization and Scale Development

Frederick Hong-kit Yim
嚴康傑

A Thesis Submitted in Partial Fulfillment

of the Requirements for the Degree of

Master of Philosophy

in

Marketing


August 2002

Abstract of thesis entitled:
**CRM Orientation: Conceptualization and Scale Development**
Submitted by **Frederick Hong-kit Yim**
for the degree of **Master of Philosophy in Marketing**
at The Chinese University of Hong Kong in August 2002

## ABSTRACT (ENGLISH)


This study seeks to address the conceptual and measurement issues related to customer relationship management orientation (CRM orientation) exhibited by firms. In this study, CRM orientation is defined as a comprehensive strategy and process that enables an organization to identify, acquire, retain and grow profitable customers by building and maintaining long-term relationships with them. In fact, there are no established scales developed to measure CRM orientation, in the face of the growing popularity of CRM nowadays (Sheth and Sisodia 2001). Confronted with numerous definitions of CRM (Buttle 2000), business practitioners have no specific guidance governing what precisely a CRM orientation is (Ryals and Knox 2001). As a consequence, many of them are at a loss as to whether the firms they manage have achieved a satisfactory level of CRM orientation.

In order to develop a reliable and valid measure for CRM orientation, this study first reviews the concept of CRM orientation and its important dimensions. Inferring from our literature review, we hypothesize that CRM orientation is a uni-dimensional construct that consists of four broad behavioral components—focusing on key customers, organizing around CRM, knowledge management and technology-based CRM. Then, following Churchill's (1979) procedure, a series of studies and analyses were conducted with data collected from firms in Hong Kong to assess the

psychometric properties of the proposed scale. The psychometric properties of the scale have been rigorously tested, and in terms of reliability and validity, results are shown to be encouraging.

In addition, we demonstrate the utility of this scale by depicting the impact of CRM orientation on business performance, relative to the well-documented scale of market orientation, across three different industries. Three interesting findings are observed. First, when financial performance is posited as a dependent variable, market orientation plays a more important role than CRM orientation across the three different industries. Second, CRM orientation is a determining factor in predicting marketing performance across the three industries. Third, nature of the firm's major customers significantly impacts marketing performance across the three different industries. As a concluding remark, academic and managerial contributions, implications, limitations and directions for future research are summarized.

# ABSTRACT (CHINESE)

本研究旨在探討「客戶關係管理導向」(CRM Orientation)之理念，並提供其測量的工具。在本研究中，「客戶關係管理導向」被界定為爭取、保留及增進帶來利潤顧客的營銷策略。「客戶關係管理」(CRM)在企業競爭環境中日益重要，可是至今並沒有任何工具來測量其在企業之水平。面對不同「客戶關係管理」的定義，管理人員實不知道如何在其企業開始推行有效的「客戶關係管理」。

為了提供一個既有信度(reliability)亦有效度(validity)的「客戶關係管理導向」測量工具，我們首先收集及分析「客戶關係管理導向」之理念及其包含之層面。透過小心檢視有關文獻，我們假設「客戶關係管理導向」包含四大層面:(一)專注主要顧客、(二)配合 CRM 的組織架構、(三)知識管理及(四)科技在 CRM 之運用。根據 Churchill(1979)所建議的步驟，我們從香港的金融企業收集數據，並進行分析。最後我們成功建立一個具備信度及效度以測量「客戶關係管理導向」的工具。

除此之外，我們還展示了這測量工具之應用性:在三種金融行業裡，「客戶關係管理導向」和「市場導向」對各項企業表現有著不同的影響。首先，市場導向對投資回本、銷售回本、市場佔有率和銷售增長之影響較客戶關係管理導向為大。在另一方面，客戶關係管理導向對消費滿意度、消費忠誠和顧客信任之影響較市場導向為大。此外，我們亦發現企業之主要顧客類別對消費滿意度、消費忠誠和顧客信任有影響。

最後，我們論述本研究對研究及企業運作之貢獻及建議、研究不足之處及未來研究方向。

## ACKNOWLEDGEMENTS

I am very much obliged to the following professors and individuals for their support and encouragement throughout the past two years.

Firstly, I would like to take this opportunity to formally thank my supervisors, Prof. Alan Tse and Prof. Leo Sin, for their continuous guidance and support. Their insightful ideas, helpful comments and enthusiasm energize this research. I gratefully acknowledge their trust in me.

My best friends should also be given heartfelt thanks for their love and concern. When I was frustrated, they were always by my side. When I needed assistance of any kind, they were the first to come. I am so lucky to have a wealth of best friends. No road is tortuous with good company.

I would also like to acknowledge the grace of God and the love of my parents and family members.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Customer relationship management (CRM) has been in the limelight over nowadays business arena (Lemon, White and Winer 2002; Sheth and Sisodia 2001), impacting considerably the operations as well as the organizational culture of a lot of firms. Nowadays business managers overwhelmingly believe that embracing the very essence of CRM is indispensable to a firm's success, and even its survival. Recent market analyses suggest that the CRM software market is set to grow by 700% over the next three years and estimated to generate total revenues of approximately $3 billion by 2004 (Fox and Stead 2001). According to International Data Corporation (IDC), while the worldwide CRM services business reached revenue of $34 billion in 1999, it is expected to grow at an annual 20% rate with a projected reach of $125 billion by 2004. Likewise, Gartner Inc. predicts that CRM will be one of the major areas of focus for the next five years. In brief, as vividly expressed by Groves (2002), "CRM applies small-town, 20$^{th}$ century, customer-friendly business practices to the fast-paced, e-commerce driven business world of today".

The implementation of CRM is grounded on the premise that customer relationships can be effectively managed and nurtured like other important assets in an organization to improve customer retention and thus profitability (e.g., Gruen, Summers and Acito 2000; Payne 2000; Ryals and Knox 2001; Ryals and Payne 2001; Sheth and Sisodia 2001). It can thus be rationally assumed that a customer relationship management orientation (CRM orientation), the implementation of CRM, is capable of engendering a competitive edge for an organization, as well as impinging positively upon business performance.

There is an abundance of evidence in the literature of CRM in support of the favorable impacts of CRM orientation on business performance (e.g., Crosby and Johnson 2001; Gruen, Summers and Acito 2000; Payne 2000; Ryals and Knox 2001; Ryals and Payne 2001; Sheth and Sisodia 2001). However, there is also a large body of literature pinpointing that many firms failed in their pursuit for a well-deployed CRM system (e.g., Davids 1999; Rigby, Reichheld and Schefter 2002). Given the exorbitant costs associated with the installation of CRM applications, firms preparing to pour millions of dollars into CRM systems must think twice about the cost effectiveness of such an endeavor (Rigby, Reichheld and Schefter 2002). In fact, an estimated 65% of CRM applications failed (Davids 1999). It is therefore of paramount importance that firms must understand what the important dimensions of implementing CRM are, so that they can choose a system that meets their requirements.

However, there are numerous controversies with respect to what exactly constitutes a CRM orientation. In the face of the growing popularity of CRM nowadays (Sheth and Sisodia 2001), innumerable definitions of CRM abound (Buttle 2000). Dyché (2002) and Rosenfield (2001) note that the term is just a buzzword, whereas Peppers and Rogers (1995) consider it as no different from data-driven marketing. To some CRM is tantamount to a loyalty scheme, while to others it is about mining a relational database. In fact, the most pervasive misconception is that CRM is solely about technology (e.g., Ballesteros 2001;

Nykamp 2001; Sheth and Sisodia 2001). In sum, our business world is rife with confusion as to what exactly constitutes CRM (Buttle 2000; Payne 2000; Ryals and Knox 2001), and it is therefore seminal that a clarification and conceptualization of this construct be delineated so that our knowledge of CRM can be advanced to a stage to enable concrete implementation of the concept in business firms.

In the face of the heightened attention paid to CRM by nowadays academics and business practitioners, to date, there is no systematic attempt made to develop a valid measure of CRM. To our disappointment, there is no established scale crafted to measure CRM orientation as embraced in firms. As a result, business practitioners striving to embrace CRM have no specific guidance governing what precisely CRM is and how the concept can be effectively implemented in their companies. This is a crucial concern for business practitioners, as implementing CRM is widely accepted as a valuable, or even inevitable, affair. It is therefore crucial to delve into what constitutes a CRM orientation, just as some researchers (e.g., Kohli and Jaworski 1990; Narver and Slater 1990) have done for market orientation.

Given the problems delineated previously, we are convinced of the urgent need to conceptualize and develop a valid measure of CRM orientation. In particular, we are motivated to embark on providing a conceptualization of the construct, as well as on developing and validating a set of multi-item scales using established procedures from the measurement development literature. We first conduct a careful literature review germane to the concept of CRM orientation and its important dimensions. Then, following Churchill's (1979) procedure, a series of studies and analyses were undertaken with data collected from firms in Hong Kong to assess the psychometric properties of the proposed scale. We conclude with a discussion of the implications drawn from our research findings, the limitations of our study and the directions for future research.

## 1.2 Research Objectives

In sum, through addressing the conceptual and measurement issues important to the study of CRM orientation, we can achieve two broad research objectives: (1) As far as theoretical development is concerned, we can fill the void in the related literature by providing a clear conceptualization of the construct; (2) As far as practical contributions made to business practitioners is concerned, the valid and reliable scale developed would enable them to measure and monitor the level of CRM orientation in their firms.

## 1.3 Outline of This Study

The remainder of this paper is organized as follows. First, a review of the related literature on relationship marketing and CRM is presented in Chapter 2. This review is aimed at providing background understanding of the subject matter in this study. Then, in Chapter 3, conceptualization of the construct, CRM orientation, is explicated. In Chapter 4, the research methodology used is described, accompanied by the procedure in assessing the validity and reliability for the proposed scale. Finally, discussions of the results, academic and managerial implications, limitations of the study as well as directions for future research are given in Chapter 5.

# CHAPTER TWO

# BACKGROUND AND PREVIOUS RESEARCH

Over the past decade, relationship marketing—establishing, developing, and maintaining successful relational exchanges (Morgan and Hunt 1994)—has been portraying its preponderance in the realm of both marketing theory and practice (e.g., Bagozzi 1995; Berry 1995; Grőnroos 1999; Sheth and Parvatiyar 2002; Tuominen, Rajala and Möller 2000; Wulf, Odekerken-Schrőder and Iacobucci 2001). Kotler (1991) and other researchers (e.g., Bauer, Grether and Leach 2002; Sheth and Parvatiyar 2002; Veloutsou, Saren and Tzokas 2002) point out that the turn towards relationship marketing is a genuine paradigm shift, whereas Webster (1992) considers it to represent a "fundamental reshaping of the field".

In this section, we draw upon the literature on relationship marketing, as CRM and relationship marketing are not distinguished from each other in the marketing literature (Parvatiyar and Sheth 2000). We first provide some reasons for the prominence of relationship marketing which, in turn, shed light on the growing popularity and importance of CRM.

## 2.1 Reasons for the Prominence of Relationship Marketing

### *2.1.1 The Growth of the Service Economy*

In essence, the prominence of relationship marketing can be attributed to a number of reasons, one of these being *the growth of the service economy* (Berry

1983, 2002; Sheth and Parvatiyar 1995). Specifically, the very nature of services, "simultaneity of production, delivery and consumption" (e.g., Lovelock et. al.1981), which implies the role of middleman is minimized (if any), facilitates the development of a greater emotional bond between service provider and service user (Grőnroos 1995). This entails the maintenance and enhancement of relationship (e.g., Berry 1995). All in all, strong customer relationships bear particular importance for services (Gwinner, Gremler and Bitner 1998; Peltier, Schibrowsky and Davis 1998).

In addition to this, relationship marketing benefits service customers by reducing their perceived risks: The intangible nature of services (e.g., Berry 1995; Crosby, Evans and Cowles 1990; Zeithaml, Parasuraman and Berry 1985) makes them difficult for customers to evaluate prior to purchase, whereas the heterogeneity nature of services (e.g., Zeithaml, Parasuraman and Berry 1985) concerns the potential for high variability in the performance of services. These two particular natures of services make buying and consumption of services substantially more risky than tangible products. The level of risk is especially high for credence services (Zeithaml 1981) which consist of attributes that service consumers may find impossible to evaluate even after purchase and consumption (Darby and Karni 1973) and whose benefits are hard to prove (Crosby and Stephens 1987). In summary, the nature of service businesses is relationship based (e.g., Grőnroos 1995) and relationship marketing lends itself particularly well to the salient characteristics of services (Berry 1995).

### *2.1.2 The Heightening of Competitive Intensity*

Another factor accounting for the prominence of relationship marketing is *the* *heightening of competitive intensity*, which makes customer retention a top priority for firms (Sheth and Parvatiyar 1995; Sindell 2000). In their pioneering work, Reichheld and Sasser (1990) identify a high correlation between defection rate and profitability, and that retaining existing customers is much cheaper than acquiring new customers. In sum, as pointed out by Day and Montgomery (1999), the very focus of the field of marketing has shifted from discrete transactions and the acquisition of new customers to relationships and the retention of valuable customers. Good marketing management stresses the building of long-term relationships (Houston and Gassenheimer 1987), which is founded on a good understanding of relationship marketing theories.

### *2.1.3 The Building of Customer Relationships to Gain a Competitive Advantage*

A number of scholars (e.g., Day 2000; Payne 2000; Reichheld 1993; Reinartz and Kumar 2000) suggest the building of strong customer relationships serves as a means for gaining a competitive advantage, especially in the competitive e-commerce marketplace (Greenberg 2001; Nykamp 2001; Sindell 2000). It is due to the very fact that product-based advantages are increasingly short-lived and budding competitors are disposed to contrive challenges on all sides. In effect, committed relationships are among the most sustainable of advantages: They are hard for competitors to understand and imitate (Day 2000), as they are socially complex (Barney 1991). Such thought is echoed in the notion raised by Gatto, vice president of consumer marketing at iChoose: "...very few things purchased these days are unique; most are commodities with different wrapping paper. The primary difference between two companies is the relationship with the customer." As a conclusion, relationship marketing can therefore be regarded as a strategic response by companies to gaining a competitive advantage (Morgan and Hunt 1999; Veloutsou, Saren and Tzokas 2002).

## 2.2 Relationship Marketing, CRM and CRM Orientation

Given the pronounced benefits afforded by relationship marketing, we have witnessed a steady stream of research conducted on relationship marketing to understand the importance of cooperative and collaborative relationship between buyers and sellers (e.g., Berry 1983, 1995, 2002; Crosby, Evans and Cowles 1990; Morgan and Hunt 1994; Sheth and Parvatiyar 1995). However, the amount of research conducted on CRM does not parallel that on relationship marketing. Fundamentally, two questions remain unanswered: What precisely is customer relationship management (CRM)? And how can it be implemented properly in a business organization?

In the marketing literature, the terms CRM and relationship marketing are used almost interchangeably (Parvatiyar and Sheth 2000). For example, Berry (1983) defines relationship marketing as "attracting, maintaining and enhancing customer relationships". Harker (1999) proposes the following definition: "An organization engaged in proactively creating, developing and maintaining committed, interactive and profitable exchanges with selected customers (partners) over time is engaged in relationship marketing." Recently, by broadening the scope of relationship marketing and viewing it in a comprehensive management and social context, Gummesson (2002) defines it as "marketing based on relationships, networks and interaction, recognizing that marketing is embedded in the total management of the networks of the selling organization, the market and society. It is directed to long term win-win relationships with individual customers, and value is jointly created between the parties involved".

On the other hand, Jackson (1985) suggests CRM to mean "marketing oriented toward strong, lasting relationships with individual accounts". Payne (2000) asserts that CRM is concerned with "the creation, development and enhancement of individualized customer relationships with carefully targeted customers and customer groups resulting in maximizing their total customer life-time value".

Although the above five definitions differ somewhat, they all pinpoint that the core theme of CRM and relationship marketing perspectives revolves around its focus on individual buyer-seller relationships, that these relationships are longitudinal in nature, and that both parties benefit in the relationship established. In short, from a firm's perspective, both the CRM and relationship marketing concept can be viewed as a *philosophy* of doing business successfully or as a distinct *organizational culture/value* that puts the buyer-seller relationship at the center of the firm's strategic or operational thinking.

In spite of the commonalities described above, we do identify some differences between CRM and relationship marketing: First, relationship marketing is relatively more *strategic* in nature, whilst CRM is used in a more *tactical* sense (Ryals and Payne 2001). Second, relationship marketing is relatively more *emotional and behavioral*, centering on such variables as bonding, empathy, reciprocity and trust (Yau et al. 2000). On the other hand, CRM is more *managerial* per se, focusing on *how* management can make concerted efforts in attracting, maintaining and enhancing customer relationships. Third, relationship marketing embraces not just the supplier-customer dyad (Gummesson 2002) but encompasses the building of relationships with such *stakeholders* as suppliers, internal employees, customers and even government as well (Morgan and Hunt 1994), but CRM is more dedicated to building relationships with *key customers* (see Table 2.1).

**Table 2.1**
**Differences between Relationship Marketing and CRM**

| Relationship Marketing | CRM |
|---|---|
| 1. Strategic Focus<br>2. Emotion and Behavior-based<br>3. Building Relationships with Stakeholders | 1. Relatively More Tactical Focus<br>2. Management-based<br>3. Building Relationships with Key Customers |

Strangely, despite its increasingly acknowledged importance, little research has focused on the implementation of the CRM concept, which we would refer to as the customer relationship management orientation (CRM orientation). Hence, a CRM-oriented organization is one whose actions are consistent with the CRM concept. To avoid possible confusion, we define CRM orientation in this study as *a comprehensive strategy and process that enables an organization to identify, acquire, retain and grow profitable customers by building and maintaining long-term relationships with them.*

Based on our previous discussion, the spate of firms espousing the management of customer relationships should not be regarded as a fad; rather, the enthusiasm towards the implementation of CRM in a business organization is logically grounded, in light of the immense benefits that it would bring forth to a company (Ryals and Knox 2001). In summary, two fruitful results can be expected from implementing

CRM in an organization: For customers, the result is enhanced relevance and value. For service providers, the result is "customer differential", a novel level of competitive differentiation through impermeable customer relationships (Nykamp 2001), which in turn leads to improved marketing effectiveness and efficiency (Crosby and Johnson 2001).

## 2.3 Two Major Confusions concerning CRM identified in the Literature

### *2.3.1 Obsessive Emphasis on the Technology Component*

As revealed by our literature review, an obsessive emphasis and reliance on technology (e.g., Ballesteros 2001; Nykamp 2001; Rigby, Reichheld and Schefter 2002; Rosenbleeth et al. 2002; Sheth and Sisodia 2001) is found in a number of firms implementing CRM. In essence, CRM cannot be interpreted merely from a technological perspective; it should be centered on customers (e.g., Brown 2000). Regarding this obsession with technology, the remark given by Gummesson (2002) is alarming: "By boosting the role of IT too far, marketing becomes technology and production obsessed and loses in customer orientation" (p. 50).

### *2.3.2 The Distinction between CRM Orientation and Market Orientation*

Some researchers (e.g., Steinman, Deshpandė and Farley 2000) have voiced the concern over the additional contribution of CRM over market orientation (Kohli and Jaworski 1990; Narver and Slater 1990), as the focus of both orientations are satisfying customer needs. Evidently, there is overlap between the two conceptualizations. Despite the lack of research concerning the nature and extent of the overlap (Steinman, Deshpandė and Farley 2000), we would like to herein delineate a rudimentary distinction: CRM orientation is distinguished from market orientation in that the former is concerned with achieving long-term mutually beneficial relationships, whereas the latter can be implemented *without* regard to a relational perspective (Sheth, Sisodia and Sharma 2000). In addition, there is the crucial component of *technology* in CRM (Parvatiyar and Sheth 2001) that cannot be found in market orientation. Briefly speaking, CRM is market orientation carried to the extreme of personalization and mass customization, facilitated by the staggering advances in information technology.

# CHAPTER THREE

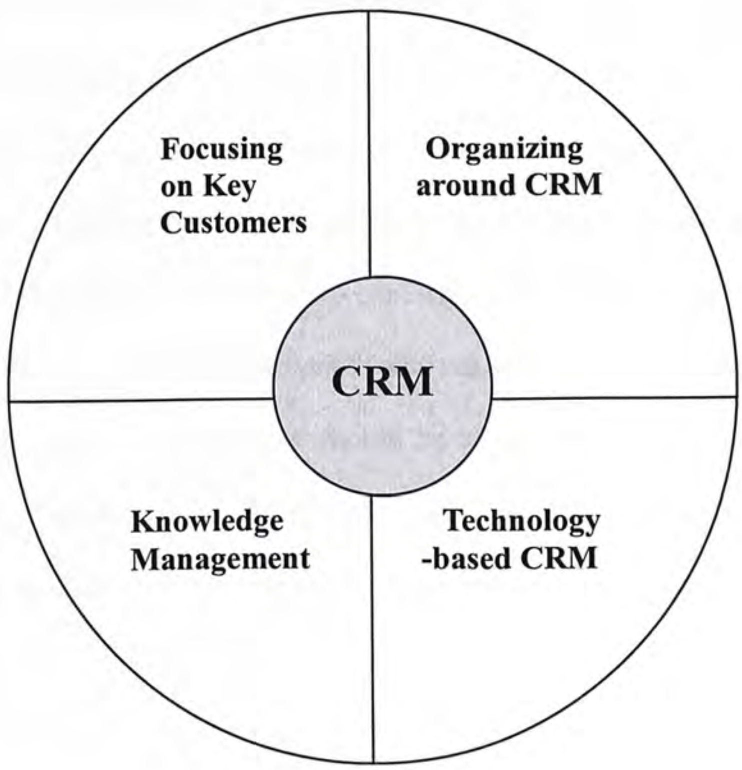
## CONCEPTUALIZATION: CRM ORIENTATION

It has been argued that for a firm to achieve consistently above-average market performance, it must create a sustainable competitive advantage (SCA) (e.g., Narver and Slater 1990; Porter 1985). That is, it must create sustainable superior value for its customers (e.g., Slater and Narver 1999). Indeed, how firms achieve and sustain competitive advantage constitutes the fundamental question in the field of strategic management (Rumelt, Schendel and Teece 1994).

Consistent with our detailed discussion, CRM orientation, the implementation of customer relationship management (CRM), has generally been assumed to create a SCA (e.g., Day 2000; Nykamp 2001; Veloutsou, Saren and Tzokas 2002), or positional advantage (Hult and Ketchen 2001). As defined in the previous section, it is *a comprehensive strategy and process that enables an organization to identify, acquire, retain and grow profitable customers by building and maintaining long-term relationships with them.*

In view of the importance of CRM orientation in nowadays business arena, we first review the literature related to relationship marketing and CRM to shed light on the conceptual domain of CRM orientation. Inferring from our literature review, we hypothesize that CRM orientation is a uni-dimensional construct that consists of four broad behavioral components—Focusing on key customers, organizing around CRM, knowledge management and technology-based CRM (see Figure 3.1). In other words, CRM orientation is the specific activities involved in the implementation of CRM. These activities include focusing on key customers, organizing around CRM, knowledge management and technology-based CRM.

**Figure 3.1**
**The Four Dimensions of the CRM Orientation**

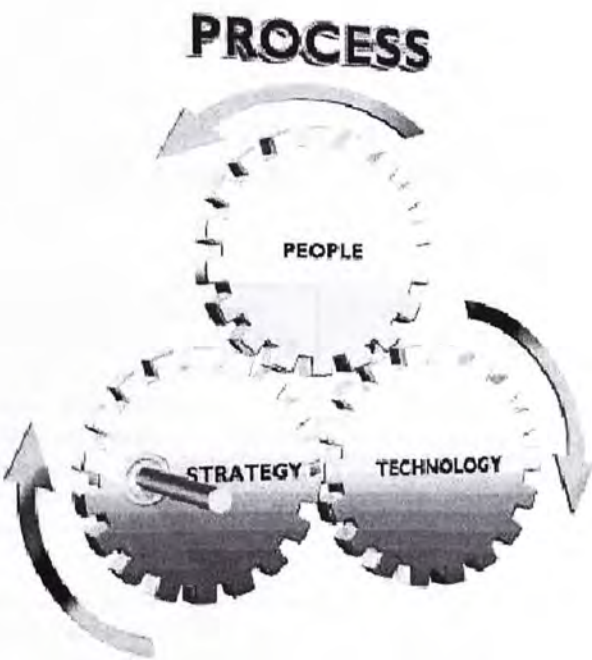



### 3.1 Support for our Conceptualization

Our conceptualization is based on the underpinning premise that successful CRM addresses four key areas of the business (e.g., Crosby and Johnson 2001; Fox and Stead 2001; Kalustian, Lombardi and Fletcher 2002; O'Halloran and Wagner 2001; Paracha and Bulusu 2002; Ryals and Knox 2001; Tiwana 2001): *Strategy, people, technology and processes*. Similarly, the explication made by Day (1994) and his later work on market-relating capability (Day 2000) that encompasses “orientation, integration and alignment of processes, and knowledge and skills” give us insights into the conceptualization of our CRM orientation scale. Although the ideas of these authors differ somewhat, they all pinpoint that successful CRM revolves around the design of appropriate strategy driven by customer satisfaction via people coordination, process integration and technology facilitation.

In particular, CRM (UK) Ltd calls the combination of these elements, namely strategy, people, technology and processes, the COG Wheel Process$^{TM}$ (see Figure 3.2). Specifically, customers should be the primary driving force for a company's strategy that places CRM at the heart of its business. In turn, the strategic direction originating from customers moves the two enablers, namely people and technology. In other words, for a company that strives to achieve successful and effective CRM, an *overwhelming customer orientation* should be at the core of its business, with *people* organized around this pivotal core and *technology* applied wherever appropriate to actualize CRM through the *process* of proper knowledge management.

**Figure 3.2**
**The COG Wheel Process™ by CRM (UK) Ltd**

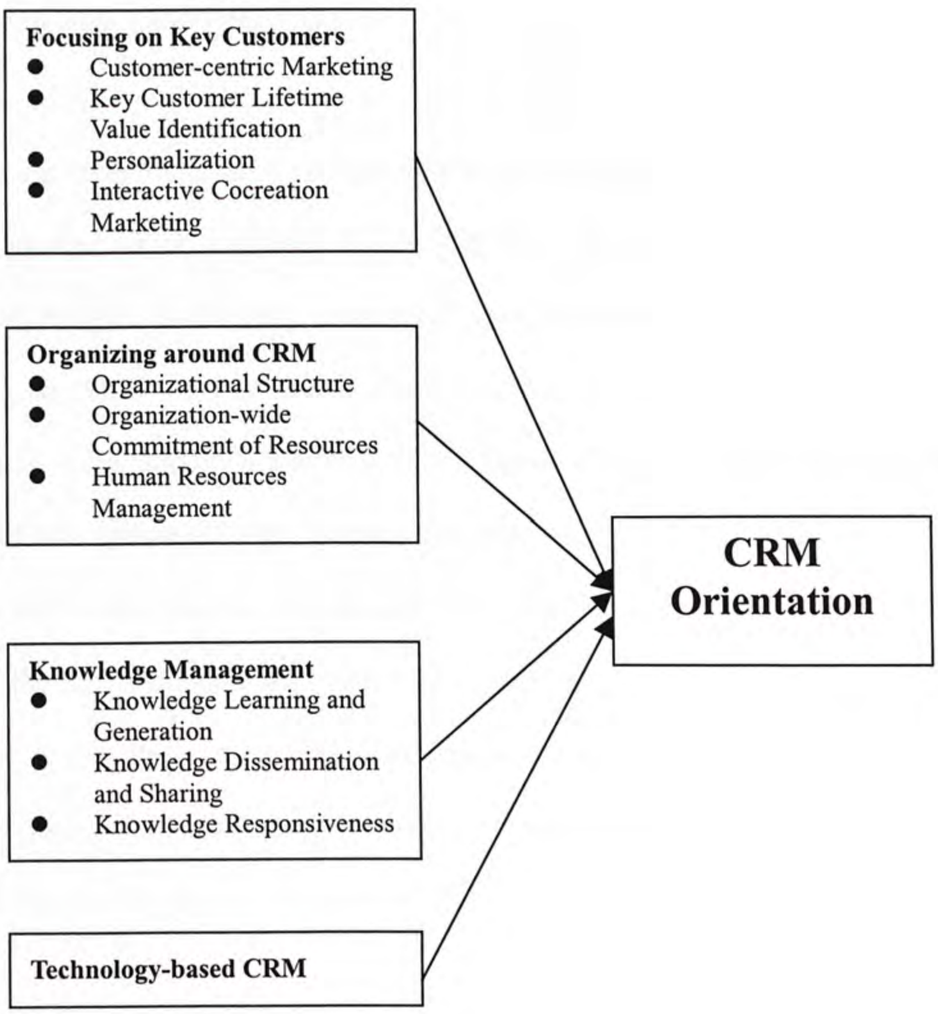



In accordance with our literature review, we postulate that CRM aims at gathering and analyzing accurate data on key customers for the identification and satisfaction of their needs at a profit through coordinated efforts of different functional units of a firm, as facilitated by the state-of-the-art technology.

## 3.2 The Components of the CRM Orientation

Based on previous literature, we hypothesize that CRM orientation is a uni-dimensional construct that consists of four broad behavioral components—Focusing on key customers, organizing around CRM, knowledge management and technology-based CRM. Under each behavioral component, there are a number of sub-dimensions identified in order to better capture its conceptual domain (see Figure 3.3). In the sequel, we would elaborate each dimension of the CRM orientation in details.

**Figure 3.3**
**Conceptualization: CRM Orientation**




### 3.2.1 Focusing on Key Customers

The dimension of "focusing on key customers" can be succinctly conceptualized as *an overwhelming customer-centric focus (Sheth, Sisodia and*

*Sharma 2000), mindset or vision, manifested in continuously delivering superior and added value to selected key customers through personalized/customized offerings after thoroughly understanding their needs and wants.* Key facets of this dimension include customer-centric marketing, key customer lifetime value identification, personalization and interactive cocreation marketing.

#### *3.2.1.1 Customer-centric Marketing*

Scattering over the realm of academic research, multifarious definitions of marketing abound. It is, however, indubitable that there is a principal common thread: Marketing is particularly concerned with customers and their needs and wants (e.g., Hunt 1976; Kotler 2000; Sheth, Sisodia and Sharma 2000). Customer orientation is of paramount importance (e.g., Arnold 2002; Day and Montgomery 1999; Kohli and Jaworski 1990; Narver and Slater 1990; Schmalensee, Bernhardt and Gust 1985; Sheth, Gardner and Garrett 1988; Sheth and Sisodia 2001, 2002). As we enter the new millennium, customer-centric marketing has been gaining momentum. In this study, we define customer-centric marketing as *the endeavor to understand and satisfy the needs, wants, and resources of selected individual consumers* (Sheth, Sisodia and Sharma 2000).

Many scholars and practitioners claim in unison that customer-centric business models are preferred to product-centric models in nowadays environment (e.g., Nykamp 2001). Such sentiments are manifested in the notion by Busquet, president of American Express Relationship Services: "Many people believe that we have entered the age of the Internet. Actually, it's more accurate to say that we're living in the age of the customer."

Essentially, the proper conduct of CRM stresses the importance of *the deliberate selection of key customers*, or the identification of strategically significant customers (SSCs) (Buttle 2000), grounded on the proposition that not all customers are equally desirable (Parvatiyar and Sheth 2001; Ryals and Knox 2001). This can be illustrated by the hotly discussed Pareto 80/20 rule: 80% of a firm's profit comes from 20% of its customers (Hoffman and Kashmeri 2000; Peppard 2000; Ryals and Knox 2001). In fact, some banks have found that high-profit households may essentially be responsible for more than 100% of profits, due to the discouraging fact that unprofitable ones subtract so much. It is thus rational to initiate the CRM efforts by customer portfolio analysis (Buttle 2000) focusing on selecting and identifying key customers. Indeed, the effectiveness of CRM rests on good old-fashioned segmentation analysis (Rigby, Reichheld and Schefter 2002). On the whole, as discussed by Peppers, Rogers and Dorf (1999), CRM is more cost-efficient for businesses with a "steep skew", a situation in which top customers account for the vast majority of the business.

Having meticulously selected key customers, a company demonstrating a CRM orientation should make every effort *to understand their needs and wants*. In essence, an understanding of the most important needs of customers is crucial to developing strong relationships with them (e.g., Morgan and Hunt 1994; Nykamp 2001; Peltier, Schibrowsky and Davis 1998; Srivastava, Shervani and Fahey 1999). Indeed, managing relationships with customers can be regarded as a means to learn about their needs and how best to satisfy them. This is called "customer functionality focus" (Srivastava, Shervani and Fahey 1999). With the passage of time, the company centering on a CRM orientation is likely to find itself culminated in better and more comprehensive understanding of the needs of its key customers, conducive to successful customer acquisition, development, retention and reactivation.

More importantly, a customer-centric focus cannot be implemented effectively without *an overwhelming customer-focused mindset or culture* perpetuating within the firm (e.g., Ryals and Knox 2001; Sheth and Sisodia 2001; Sheth, Sisodia and Sharma 2000; Sindell 2000; Tehrani 2000). Such a relationship orientation should pervade all parts of the organization's mindset, values, and norms and thus impinge on all interactions with the key customers—before, during, and after the transaction (Day 2000). It is the responsibility of senior management to establish and foster a climate conducive to relationship building (McQuiston 2001) and a CRM orientation (Conduit and Mavondo 2001).

Viewed from the strategic marketing perspective, a company embracing a CRM orientation and advocating customer-centric marketing should find that its business mission and objectives are driven primarily by customer needs and the building of long-term key customer relationships. The vision of CRM should be internalized throughout the organization with top management support (Nykamp 2001).

### *3.2.1.2. Key Customer Lifetime Value Identification*

A principal idea in the above customer-centric concept is the identification of key customer through lifetime value computation. Customer lifetime value is defined as *"the net of the revenues obtained from that customer over the lifetime of transactions with that customer minus the cost of attracting, selling, and servicing* *that customer, taking into account the time value of money"* (Jain and Singh 2002). Sheth and Sisodia (1999, 2002) depict that a small group of customers typically account for a large share of revenues and an even greater share of profits. These customers effectively subsidize a large number of marginal and, in many cases, unprofitable customers. The costs to serve unprofitable customers are comparable with, and sometimes higher than, the costs of serving the most profitable customers.

In CRM, marketers assess each customer individually and make a determination of whether to build relationship with that customer. Some customers are "strangers" (short-term customers of low profitability) who do not deserve investment in relationship building, while some are "true friends" (long-term customers of high profitability) who merit heightened attention and care (Reinartz and Kumar 2002). By studying the lifetime value of that customer, the company must decide whether to create an offering that customizes the product and/or some other element(s) of the marketing mix or standardize the offering (Sheth and Sisodia 1995). Essentially, the decision should enhance company profit by focusing on profitable customers via more personalized/customized offerings, and reducing the subsidization of unprofitable customers. For this valuable group of profitable customers, any offering must be "highly customized to each individual's preferences based on prior purchasing history and stated preferences" (Sheth and Sisodia 2002). For nonprofitable customers, the appropriate strategy is the outsourcing of these customers (Sheth and Sisodia 1999) by for example, contracting with an outside vendor to serve them.

The Internet has the ability to store vast amounts of information about each transaction (Peterson, Balasubramanian and Bronnenberg 1997), and so the computation of lifetime value is relatively easy in an information technology (IT) environment. In fact, stimulated by the staggering advances in IT, many firms have formalized the practice of value modeling, allowing them to score a customer based on his/her relative worth to the company over time (Dyché 2002).

#### *3.2.1.3 Personalization*

Once management is satisfied that a particular customer is a very worthwhile customer for relationship building, personalization may be an appropriate strategy to consider as a critical value driver in building relationship (Bendapudi and Leone 2002; Sheth and Sisodia 2002) and as relational benefits to that customer (Gwinner, Gremler and Bitner 1998). Personalization is grounded on the well-accepted notion that not all consumers possess the same drives and goals (e.g., Sheth, Gardner and Garrett 1988). Some researchers (e.g., Tian, Bearden and Hunter 2001) even suggest that customers, driven by their need for uniqueness, prefer personalized items. On the whole, personalization is strongly linked with the emotions of self-concept, self-worth, and self-esteem (Scanlan and McPhail 2000). In this study, personalization is defined as *the practice of one-to-one marketing through the use of mass customization* (Dyché 2002; Gilmore and Pine 1997; Pang and Norris 2002; Peppers and Rogers 1993; Peppers, Rogers and Dorf 1999; Pine, Victor and Boynton 1993), providing the right product to the right person at the right time to save both parties time and effort in the consumption process (Harney 2002).

In fact, the importance of personalization in nowadays marketplace characterized by a strong reliance on customer relationships can be understood by *the heightening of market diversity*. Market diversity has been increasing in both business and consumer markets (Sheth, Mittal and Newman 1999; Sheth and Sisodia 1999; Sheth, Sisodia and Sharma 2000), making mass marketing and even segment marketing become less effective and efficient. In business markets, Sheth, Sisodia and Sharma (2000) point out that increasing diversity in size, location, and type of companies have led to a high level of diversity in the needs, wants, and resources of business customers. For consumer markets, the same authors witness that demographic variables are increasing the variance in consumers' needs, wants, and resources. Bauer, Grether and Leach (2002) add that the more differentiated customer needs can be attributed to "the change in values that is going on in society and manifests itself in an increased trend towards hedonism and individualism".

Sheth, Sisodia and Sharma (2000) point out that the increasing diversity in needs, wants, and resources will make customer behavior inherently less predictable and forecasting less accurate. In such an environment, companies that succeed will be those that can rapidly adjust their supply to meet demand, that is, practice demand-driven supply management (e.g., yield management used by airlines). In sum, instead of trying to influence people in terms of what to buy, when to buy, how much to buy, marketing will be more concerned with better responding to customer demand by personalized products and services. Similarly, Parasuraman, Berry and Zeithaml (1991) point out that customers desire more personalized, closer relationships with service providers, whereas Mittal and Lassar (1996) demonstrate that personalization can positively impact customers' patronage decisions, which is conducive to relationship building.

In the realm of relationship marketing, mass marketing is rendered obsolete, and the concept of "marketing-to-one", which strives to tailor marketing to individual customers, is deemed more appropriate (e.g., Guleri 2000; Ryals and Payne 2001; Sheth and Sisodia 2001). In particular, Berry (1983, 1995) explicates that customizing the relationship to the individual customer is a pivotal strategy element for practicing relationship marketing.

Personalization is facilitated by CRM software and data mining techniques when a firm can accumulate and analyze past interaction data concerning their customers. The more data about customer a firm can accumulate, the better the firm can perform the task of personalization. Personalization can be carried out very efficiently on the Internet because it is interactive, and it has the capability to respond to the specific requirements of individual customers (Deighton 1997). It allows customers to seek unique solutions to their specific needs.

#### *3.2.1.4 Interactive Cocreation Marketing*

The interactive nature of the Internet also facilitates cocreation marketing (Sheth, Sisodia and Sharma 2000; Wind and Mahajan 2002), or "prosumption" (Veloutsou, Saren and Tzokas 2002). In this study, interactive cocreation marketing is conceptualized as *the endeavor by both the marketers and the customers who interact in aspects of the design, production, and consumption of the product or service.*

The *ongoing two-way communication* between exchange partners in cocreation marketing is considered critical for establishing and maintaining strong relationships (Berry 1995; Day and Montgomery 1999; Fox and Stead 2001; Morgan and Hunt 1994; Peltier, Schibrowsky and Davis 1998; Peppard 2000). The key aspect of cocreation marketing is customer-firm interaction, and the Internet is a key platform (Sheth, Sisodia and Sharma 2000). Every interaction adds to the learning relationship with the customer, thereby improving the firm's ability to fit its product to him/her and locking him/her into such learning relationship (Peppers, Rogers and Dorf 1999).

In sum, the key to cocreation marketing is collaboration, cooperation, and communication. Armed with individual customer knowledge through "ongoing dialogue" (Fox and Stead 2001), firms can work with individual customers to customize their solutions so that individual needs are catered for (Dodge and Fullerton 1997; Srivastava, Shervani and Fahey 1999; van Raaij, Strazzieri and Woodside 2001). Cocreation marketing can thus create added value, or relationship value (Payne and Holt 2001), jointly (Gruen, Summers and Acito 2000; Gummesson 2002; Morgan and Hunt 1994), thereby enhancing customer loyalty and reducing the cost of doing business (Sheth, Sisodia and Sharma 2000).

### 3.2.2 Organizing around CRM

Having deeply implanted the overwhelming focus on key customers in the organization, the organization advocating a CRM orientation should organize the whole firm around its selected customers (Buttle 2000; Fox and Stead 2001; Homburg, Workman and Jensen 2002; Nykamp 2001; Peppard 2000; Ryals and Knox 2001). CRM essentially means fundamental changes in the way that firms are organized (Ryals and Knox 2001) and business processes are conducted (Hoffman and Kashmeri 2000). In other words, CRM orientation can be effective only when firms meticulously design and align the necessary structures, processes, and incentives to manifest and operationalize their customer-centric values (Hartline, Maxham III and McKee 2000; Homburg, Workman and Jensen 2000). In order to successfully organize the whole firm around CRM, there are some key areas that merit our attention, including organizational structure, organization-wide commitment of resources and human resources management.

#### *3.2.2.1 Organizational Structure*

Organizational structure is often the most overlooked crux of the implementation of CRM (Brown 2000), despite the fact that it is one of the most widely studied organizational variables (Homburg, Workman and Jensen 2000). As CRM is an organization-wide initiative that has broad-sweeping impacts on the entire organization, it requires that all areas of the organization work toward the common goal of forging and nurturing strong customer relationships (Nykamp 2001; Ryals and Knox 2001; Tehrani 2000). As such, the *design of organizational structure* that lends itself particularly well and most effectively optimizes customer relationships may be the establishment of process teams (Parsons, Zeisser and Waitman 1996), customer-focused teams (Sheth and Sisodia 2002), cross-discipline segment teams (Brown 2000, p. 17), or cross-functional teams (Homburg, Workman and Jensen 2000; Ryals and Knox 2001). This entails and underscores the importance of interdependence (Ensign 1998), interfunctional coordination (Narver and Slater 1990) and interfunctional integration (Peppard 2000; Ryals and Payne 2001). Such sentiments are also echoed by Kohli and Jaworski (1990).

In the universe of CRM, *interfunctional coordination* is of particular importance—Successful strategy is to span all parts of the value chain from marketing, product development and sales to customer service (Brown 2000). Indeed, the synergies created by interdepartmental collaboration should result in increased organizational performance (Conduit and Mavondo 2001) and enhanced services offered to customers.

Implicit in the urge for interfunctional coordination lies the essence of *interfunctional integration* that mitigates the negative impacts that functional boundaries can have on the successful implementation of CRM. CRM needs to be integrative (Peppard 2000; Ryals and Payne 2001) because CRM activities transcend functional boundaries within a firm. In fact, the CRM challenge today centers around the implementation of a multichannel strategy, which necessitates the integration of multiple channels (Brown 2000, p. xvi; Butler 2000; Byrd 2001; Peppard 2000).

#### *3.2.2.2 Organization-wide Commitment of Resources*

Organization-wide commitment of resources should follow after crafting the design of organizational structure and integrating properly those involved components. In particular, sales and marketing resources, technical expertise, as well as resources promoting service excellence should be all in place. The success of customer acquisition, development, retention and reactivation all hinges on the company's commitment of time and resources towards identifying and satisfying key customer needs (Nykamp 2001).

#### *3.2.2.3 Human Resources Management*

In order that all people in the organization would internalize the CRM concept in their every day interactions with customers, the human resources function must get involved in the organizational change process (Pitt and Foreman 1998). It should be clearly understood that strategy, people, technology and processes are all vitally important to a CRM orientation, but it is the individual employees who are the building blocks of customer relationships (Brown 2000, p. xvii; Ryals and Knox 2001). As Krauss (2002) maintains, "the hardest part of becoming CRM-oriented isn't the technology, it's the people".

Internal marketing, a domain where human resources and marketing interface (Bowen and Sparks 1998), is characterized by its effectiveness in articulating to and instilling in employees the utmost importance of service-mindedness and customer orientation (e.g., Grőnroos 1990). As a result, most authors agree that internal marketing should improve some external market outcomes like service quality (e.g., Grőnroos 1985; Lewis 1989) and customer satisfaction (e.g., Bowen 1996; Tansuhaj, Wong and McCullough 1987). It has even been asserted that internal marketing must indeed precede external marketing (Cooper and Cronin 2000; Kotler 1994; Mitchell 2002).

With reference to the definition that *internal marketing* is a management philosophy that systematically frames the practices for managing employees towards a market orientation (Grőnroos 1990; Lewis 1989) and a customer orientation (Schmalensee, Bernhardt and Gust 1985), we are convinced that internal marketing also provides a systematic framework for managing employees towards a CRM orientation. The premise is that firms must establish relationships with employees (the means) to successfully establish those with customers (the end) (Berry 1995).

In summary, building commitment to CRM throughout the organization, which can be achieved by internal marketing, is essential to the successful adoption of CRM applications (Ryals and Payne 2001). It can therefore be reckoned that embarking on internal marketing is key to streamlining the coordination among various functions in the organization. For the purpose of this paper, we are particularly interested in four internal marketing processes that may have significant impacts on a CRM orientation, namely market training and education, internal communication, reward systems, and employee involvement. They are explicated in details in the sequel.

*3.2.2.3.1 Market Training and Education*

Training programs, a type of formal input control (Hartline, Maxham III and

McKee 2000), are essential in conveying to employees the importance and nature of a CRM orientation (Brown 2000, p. xvii; Ryals and Knox 2001; Tehrani 2000) to deepen customer relationships (Nykamp 2001). They can also equip employees with the specialized skills and sensitivity to customer needs required (Conduit and Mavondo 2001). In addition, training can assist employees in developing a holistic view with respect to a service strategy by delineating the role of each individual in relation to other individuals, the various functions within the firm, and the customers (Grőnroos 1990). In sum, Nykamp (2001) stresses that ongoing training initiatives should center on CRM vision, strategies and goals, individual and group roles and responsibilities for CRM, adoption of new systems, and understanding of customer needs.

*3.2.2.3.2 Internal Communication*

Effective communication within an organization, though indispensable for the development of a market orientation (Conduit and Mavondo 2001) as well as a CRM orientation (Ryals and Knox 2001), is often overlooked (Brown 2000, p. xvii). CRM responsibilities of each employee should be clearly defined, assigned and understood (Nykamp 2001) by unequivocal and accurate communication. Indeed, employees need information to be able to perform their tasks as service providers to customers (Grőnroos 1990). Their performance would definitely be thwarted when there is a dearth of quality communication. As such, employees in the organization should be motivated to instigate open communication to the benefits of the parties involved (Hult and Ferrell 1997).

*3.2.2.3.3 Reward Systems*

It has been widely documented that reward systems are instrumental in shaping the behavior of employees (e.g., Conduit and Mavondo 2001) and thus constitute a crucial component of successful internal marketing (Czaplewski, Ferguson and Milliman 2001). Reward systems can provide the motivation for employees to adopt new attitudes and behaviors in accordance with a CRM orientation. Accordingly, the yardstick of measuring and rewarding success should be changed—Retention of key customers as well as dedication to customer orientation should be given credit (Egan 1999; Rigby, Reichheld and Schefter 2002; Ryals and Knox 2001; Schmalensee, Bernhardt and Gust 1985; Sheth and Sisodia 2002). In summary, reward systems must provide incentive for adopting behaviors demonstrating a CRM orientation, rather than rewarding short-term profits or sales.

*3.2.2.3.4 Employee Involvement*

All parties concerned must be involved in any CRM project to develop a sense of ownership, to give empowerment and eventually to generate enthusiasm (Brown 2000, p. xvii). It is thus logical to propose that employee involvement can strengthen commitment to a CRM orientation. Moreover, due to the "psychological closeness" between service providers and customers, it is beneficial to involve employees, who have valuable information about the needs of customers, in the planning process (Grőnroos 1990).

### 3.2.3 Knowledge Management

According to the knowledge-based view of the firm, the primary rationale for a firm's existence is the creation, transfer, and application of knowledge (Decarolis and Deeds 1999; Grant 1996). As such, knowledge management is of paramount importance for firms. In order to acquire a more thorough understanding of firms, knowledge is an essential construct (Schoonhoven 2002). Knowledge, though a rather elusive concept (Birkinshaw, Nobel and Ridderstråle 2002), can be generally defined as *what has been learned from experience or empirical study of consumer data* (Schulz 2001). Knowledge is more than information. It is information with insights and interpretations. According to Schulz (2001), knowledge is distinct from information by its inclusion of interpretations, from beliefs by its higher degree of validity, and from wisdom by its more transient veridicality.

Fueled by the advent of powerful information technologies, information processing has freed itself from the role as a key bottleneck in organizations, and instead, the main challenge to nowadays organizations is now seen as producing and processing knowledge (Schulz 2001). It has been asserted that *the primary value-creating capability of the organization* revolves around its ability to exploit its intellectual capital—Knowledge (Riesenberger 1998). In nowadays information age, it is indubitable that enterprises should pay heightened attention to the value of knowledge (Davenport and Grover 2001), specifically organization's knowledge of customer behavior (Crosby and Johnson 2001; Lesser, Mundel and Wlecha 2000). Transforming data and information to market intelligence (Guleri 2000), in an efficient and effective manner, can be a source of competitive advantage (LaRow 2000).

It has been argued that "the critical challenge for any business is to create the combination of culture and climate that maximizes organizational learning on how to create superior customer value" (Slater and Narver 1995). Such argument notably accentuates the phenomenal role played by *organizational learning* in learning and creating knowledge so as to achieve sustainable competitive advantage (Dyer and Nobeoka 2000; Morgan and Hunt 1999; Slater and Narver 1995). This means that business firms must tap into the cumulative knowledge base of their entire value chain to be market-oriented (Hult and Ferrell 1997) and customer-centric.

In accordance with the notion raised by Slater and Narver (1995) that market orientation strongly parallels the content of the organizational learning process, we postulate that CRM orientation also parallels the domain of the organizational learning process, by virtue of the fact that knowledge generation and sharing is the dominating theme of CRM orientation (Peppard 2000; Ryals and Knox 2001). In fact, CRM is predominated by proper knowledge management *per se* (LaRow 2000; Peppard 2000). It is therefore believed that a learning organization lends itself particularly well to the successful implementation of CRM that focuses on leveraging the value of knowledge to effectively satisfy customers' expressed and latent needs, thereby leading to superior customer retention (Slater and Narver 1995).

Drawing from Slater and Narver (1995) who explicate that organizational learning is a three-stage process that encompasses information acquisition, information dissemination, and shared interpretation, we conceptualize the dimension of "knowledge management" as *the development of knowledge to be* *shared, so that responsive actions can be taken to act in a customer-centric manner.* Key facets of this dimension include knowledge learning and generation, knowledge dissemination and sharing, and knowledge responsiveness.

#### *3.2.3.1 Knowledge Learning and Generation*

Knowledge generation, or intelligence generation (Conduit and Mavondo 2001), is deemed essential for market orientation (Kohli and Jaworski 1990; Slater and Narver 1994, 1995) as well as CRM orientation (Ryals and Knox 2001), by virtue of the profound value of knowledge about key customers that can be utilized to enhance the competitiveness of a firm (e.g., LaRow 2000). Customer information like their needs and preferences should be captured directly, often through their *interactions with the entire business* that is the very concern of CRM (Fox and Stead 2001).

Information can also be acquired through an interactive feedback system. Understanding customers' requirements and accurately measuring their expectations and outcomes often hinge on establishing an interactive feedback system (Peltier, Schibrowsky and Davis 1998; Ryals and Payne 2001). The *two-way communication* instilled in an interactive feedback system is conducive to customer retention and successful implementation of CRM (Ryals and Payne 2001). In fact, nowadays eCRM applications often leverage the advantages of the interactivity of the Internet (Hoffman, Novak and Chatterjee 1995) to facilitate ongoing two-way communication between exchange partners, which is considered critical for establishing and maintaining strong relationships with customers (Berry 1995; Fox and Stead 2001; Morgan and Hunt 1994; Peltier, Schibrowsky and Davis 1998;

Peppard 2000). As a result, they provide real value (Welty and Becerra-Fernandez 2001) and even added value (Sindell 2000) for customers.

The primary objective of knowledge generation is *to afford a 360-degree customer view* by developing and fostering a customer-centric information database with continual data maintenance. Capturing data originating from all customer contact points while simultaneously drawing in data from disparate databases is the foundation for proactive, customer-centric business strategies (Guleri 2000; LaRow 2000).

*Treating and managing customers holistically*, instead of construing them as a grab bag of uncoordinated data points held in separate systems, is important for successful CRM (Byrd 2001; Guleri 2000). The firm must be able to "see" the relationship with the customer as a whole (Ryals and Payne 2001). It is asserted by Peppard (2000) that integrated information, that is, information centrally managed and registered as the "one version of the truth" that renders a consolidated view of the customer across all channels and products, is paramount for successful management of customer relationships.

Business intelligence tools like data mining (Hall 2001), data warehouses and data marts are helping firms improve segmentation and one-to-one marketing capabilities (Guleri 2000; Ryals and Knox 2001). Firms can thus incorporate customer information into strategic business intelligence, applying it across operations to better serve customer needs.

### *3.2.3.2 Knowledge Dissemination and Sharing*

Once learnt and generated, knowledge is of limited value if it is not shared with other parts of the organization (Schulz 2001), which can be portrayed as a community of shared knowledge (Grandori and Kogut 2002). Knowledge and intelligence should be disseminated across and within all departments so as to facilitate a CRM orientation (Peppard 2000; Ryals and Knox 2001). This ensures that all employees have access to customer knowledge to proactively anticipate and respond to customer needs (Kohli and Jaworski 1990).

In essence, knowledge value escalates when knowledge is disseminated and shared, owing to the fact that the knowledge can be seen in its broader context by all parties involved who might use or be affected by it and who can respond by feedbacks that offer new insights (Hult and Ferrell 1997; Kohli and Jaworski 1990; Slater and Narver 1995). Given its potential value, it is imperative that organizations develop sound mechanisms for sharing and managing customer knowledge (Bendapudi and Leone 2002; Sheth and Sisodia 2001; Walsham 2001). Kohli and Jaworski (1990) also underline the importance of effectively disseminating intelligence, grounded on the notion that it provides a shared basis for concerted actions by different departments.

The logical consequence is that customer knowledge is shared and available at every point of contact (Nykamp 2001), thus facilitating organizations to deliver the same consistent, personalized, high-quality service across all interactions and all marketing channels. As a result, the "total customer experience" (TCE) can be enhanced to drive loyalty (Calhoun 2001): With consistency instilled in the customer experience, customer needs are met (Butler 2000) and satisfaction created (Langenfeld 2001). As Brown (2000) asserts, a consistent and integrated customer interface, and the ability to make available the same customer information and customer intelligence at all customer touch points in all channels, are the bases for obtaining the complete benefits of CRM investments.

#### *3.2.3.3 Knowledge Responsiveness*

Knowledge responsiveness takes the form of *acting on the knowledge generated and disseminated* (Kohli and Jaworski 1990). These encompass selecting target segments, deliberately crafting the marketing mix in a manner that elicits favorable customer responses, and meticulously customizing product and service offerings that address customers' current and anticipated needs. In fact, customization is the most hotly discussed action taken on knowledge, in the realm of CRM (e.g., Ryals and Knox 2001).

The action taken should be *prompt* (or "responsive" in another sense). If the action is taken in a delayed manner, the knowledge learnt and shared may become obsolete, and thus the action cannot elicit the expected favorable responses from customers. As marketing is now more concerned with better responding to customer demand (Sheth, Sisodia and Sharma 2000), actions taken in a prompt manner not only enhance service quality (Parasuraman, Zeithaml and Berry 1988), but also foster long-term relationships with customers.

### 3.2.4 Technology-based CRM

As clean and accurate customer data are essential to successful CRM performance (Abbott, Stone and Buttle 2001), technology, conceivably, plays an important role in CRM in protecting intellectual assets from decay, adding to firm intelligence and providing increased flexibility (Sharma, Singh and Ranjan 2001). It is evident that knowledge generation, sharing and responsiveness are facilitated and enhanced by technology. In fact, aided by the startling advances in information technology (IT), enterprises are now equipped with the capability to collect, store, analyze and share customer information in ways that greatly enhance their ability to respond to the needs of individual customers (Dibb 2001) and thus to attract and retain customers (Butler 2000). We are in a new era of technology-enabled marketing, or technology-related marketing (Arnold 2002), that involves leveraging relationships through the use of IT (Payne 2000). One distinct benefit to relationship building brought about by advances in IT is *keeping and fulfilling promises made to customers*, an age-old principle on which relationship marketing centers (e.g., Berry 1995; Bitner 1995; Dodge and Fullerton 1997; Peltier, Schibrowsky and Davis 1998).

The promise of one-to-one relationships, customer-value analysis and mass customization are now brought to reality by unprecedented advances in IT (Peppard 2000). As pointed out by Winer (2001), the essence of this IT revolution and, in particular, the Web, allows companies to build better relationships with their key customers than has been previously possible in the offline world. Internet supported CRM, or eCRM, has been gaining momentum and leveraging the benefits of traditional CRM. In particular, traditional approach to CRM has been transformed to a web-enabled and integration approach, featured by tools like customer information system, automation of customer support processes and call centers (Ghodeswar 2001). Customer interaction centers, databases, data marts, data warehouses, data mining and query tools are ubiquitous in the realm of nowadays CRM and eCRM. Despite the very fact that the technological component of CRM is often unduly over-emphasized (e.g., Ballesteros 2001; Nykamp 2001; Sheth and Sisodia 2001), an essential element of achieving successful implementation of CRM is to ensure that the right technological infrastructure is in place in the organization (Parvatiyar and Sheth 2001; Payne 2000).

CRM calls for "information-intensive strategies" which necessitate the utilization of computer technologies to build relationships. Ryals and Payne (2001) call this "information-enabled relationship marketing". Computer technologies such as computer-aided design/computer-aided manufacturing, flexible manufacturing systems, just-in-time production databases, data warehouses, data mining and CRM software systems enable firms to create better and more customized products with better quality at lower cost. It also helps staff at all contact points serve customers better. The ultimate goal is that every channel and every medium need to be able to serve every customer better (Hoffman and Kashmeri 2000).

Ideally, the development of knowledge management system should be facilitated by an early partnership between marketing and information technology (Riesenberger 1998). All in all, a lot of customer-centric activities would not be possible without the right technology. CRM advocates should not be oblivious to the pivotal roles played by software, hardware and technical personnel.

# CHAPTER FOUR

# RESEARCH METHODOLOGY

## 4.1 Overview

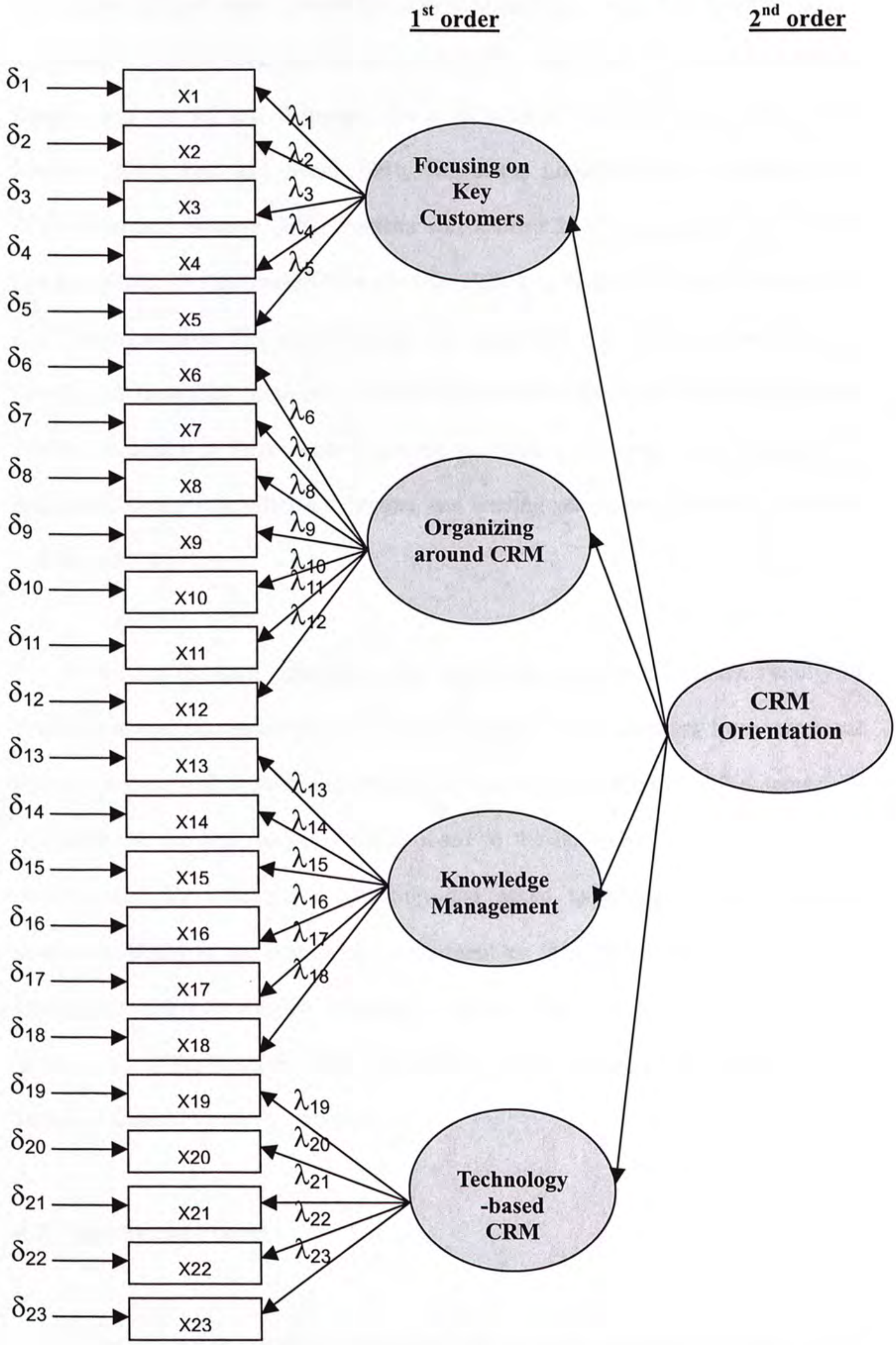
In order to capture the conceptual domain of CRM orientation, a number of items were generated for our proposed scale. The issue of content validity was then examined on these items. A pilot survey was then undertaken to test the internal consistency of our proposed scale for CRM orientation, as recommended by Summers (2001). Factor analyses were conducted to further refine our scale (Gerbing and Anderson 1988; Hinkin 1998).

Using a survey design, our sample was drawn from service firms in Hong Kong financial industry for our main study. To ascertain whether non-response bias exists, we conducted a series of chi-square tests and t-tests. The critical issue of reliability was then assessed using Cronbach's coefficient alpha. Evidence of convergent, discriminant and nomological validities was demonstrated, lending support to the construct validity of our proposed scale. We conclude this section by depicting the relative impacts of CRM orientation (CRMO) and market orientation (MO) on business performance across three different industries.

## 4.2 Item Generation and Content Validity

As discussed in depth previously, we have identified customer relationship management orientation (CRM orientation) to be a uni-dimensional construct consisting of four behavioral components—Focusing on key customers, organizing around CRM, knowledge management and technology-based CRM. Each of the four components should be measured reliably with a multi-item scale (see Figure 4.1).

**Figure 4.1**
**Measurement Model of the Four Components of the CRM Orientation**



In compliance with Churchill's (1979) suggestion, once the dimensions are identified, a pool of items should be generated for each dimension of the construct. Based on a careful and thorough review of related literature (e.g., Crosby and Johnson 2001; Fox and Stead 2001; Kalustian, Lombardi and Fletcher 2002; O'Halloran and Wagner 2001; Paracha and Bulusu 2002; Ryals and Knox 2001; Tiwana 2001), 78 statements/items were developed to measure the four components of CRM orientation. The goal is to develop items that will result in measures that sample the theoretical domain of interest to demonstrate content validity (Hinkin 1998). In addition, item screening was undertaken to avoid the inclusion of redundant, double-barrelled, ambiguous, and leading statements (Bearden, Hardesty and Rose 2001).

Following the item generation step, two faculty members from the Faculty of Business at one university in Hong Kong and two CRM managers from two local service firms served as judges to evaluate the content/face validity of the items. In this analysis, the four judges were exposed to the definition of each component accompanied by a related explanation and asked to allocate each of the 78 statements/items to an appropriate component or to a "not applicable" category. Items that did not receive consistent classification by the four judges were eliminated. Thirty statements were deleted in this process, resulting in 48 statements/items for further analysis.

## 4.3 Instrument Pretest

In an attempt to test the internal consistency of the CRM orientation scale and to reduce the number of items to a manageable size, a pilot survey had been conducted before the main study was undertaken. It has been recommended that a rigorous pretest of the questionnaire is desired, especially if new scales are constructed (Summers 2001).

In the pilot study, 150 business executives attending the part-time MBA program offered by one university in Hong Kong were given the 48-item questionnaire in class. Each participant was asked to indicate on a six-point scale (1 = "strongly disagree", 6 = "strongly agree") the extent to which he/she agreed with the items with respect to the marketing/management practices engaged by his/her affiliated firm.

Following data collection, it is recommended that factor analysis be used to further refine the new scales (Gerbing and Anderson 1988; Hinkin 1998). With exploratory factor analyses, altogether 25 items with cross loadings were deleted, resulting in a 23-item scale to measure CRM orientation. Subsequent factor analysis was carried out on the 23 items. Principal component analysis with oblique rotation resulted in a four-factor solution, as shown in Table 4.1. The coefficient alphas used to measure scale reliability for the "Focusing on key customers", "Organizing around CRM", "Knowledge management" and "Technology-based CRM" dimensions were 0.8476, 0.8659, 0.8337 and 0.8532 respectively, all of which are above the threshold specified and recommended by Nunnally (1978).

**Table 4.1**
**Results of Exploratory Factor Analysis**

| Variables | Focusing on Key Customers | Organizing around CRM | Technology-based CRM | Knowledge Management |
|---|---|---|---|---|
| Through ongoing dialogue, we work with individual key customer to customize our offerings. | .774 | | | |
| My organization provides customized services and products to our key customers. | .710 | | | |
| All people in my organization treat customers with great care. | .682 | | | |
| My organization makes an effort to find out what our key customer needs. | .675 | | | |
| When my organization finds that customers would like to modify a product/service, the departments involved make coordinated efforts to do so. | .599 | | | |
| Customer-centric performance standards are established and monitored at all customer touchpoints. | | .709 | | |
| My organization has the sales and marketing expertise and resources to succeed in customer relationship management (CRM). | | .706 | | |
| Our employee training programs are designed to develop the skills required for acquiring and deepening customer relationships. | | .700 | | |
| My organization has established clear business goals related to customer acquisition, development, retention and reactivation. | | .608 | | |
| My organization commits time and resources in managing customer relationships. | | .516 | | |
| Employee performance is measured and rewarded based on meeting customer needs and on successfully serving the customer. | | .500 | | |
| Our organizational structure is meticulously designed around our customers. | | .462 | | |
| My organization has the right technical personnel to provide technical support for the utilization of computer technology in building customer relationships. | | | .808 | |
| My organization has the right software to serve our customers. | | | .742 | |
| My organization has the right hardware to serve our customers. | | | .576 | |
| Individual customer information is available at every point of contact. | | | .570 | |
| My organization maintains a comprehensive database of our customers. | | | .429 | |
| Customers can expect exactly when services will be performed. | | | | .774 |
| Customers can expect that my organization's employees are not too busy to respond to customer requests promptly. | | | | .578 |
| My organization's employees are willing to help customers. | | | | .530 |
| My organization fully understands the needs of our key customers. | | | | .526 |
| My organization provides channels to enable ongoing, 2-way communication with our key customers and us. | | | | .437 |
| Customers can expect prompt service from employees of my organization. | | | | .334 |
| **Eigenvalue** | **4.739** | **3.982** | **2.869** | **2.707** |
| **Percentage of variance** | **20.605** | **17.314** | **12.472** | **11.770** |

### 4.4 Sample and Data Collection

Using a survey design, the data for the main study were collected from service firms in Hong Kong financial industry. Hong Kong, as an international financial center, has been frequently chosen as the place for setting up regional headquarters by multi-national enterprises. With diverse cultural backgrounds, these companies provide valuable data, from which we can derive our findings with high generalizability. Moreover, the sample drawn from Hong Kong is deemed appropriate, by virtue of the fact that Hong Kong is predominated by an Asian culture where a relationship is always considered essential in business operations (Yau et al. 2000). In addition, most of the past discussions on relationship marketing and CRM were mainly conducted in the context of western culture, underscoring the importance of conducting research in an oriental culture so as to enrich the domain of the subjects.

Also, sampling from the financial industry is appropriate. First, despite the fact that financial services constitute a large sector of the economy, there is a scant amount of research conducted to look into the adoption and experiences of firms adopting CRM in this sector (Ryals and Payne 2001). Our study can be served as an attempt to fill this research void. Moreover, as the implementation of CRM is widespread (Peppard 2000) and more advanced (Ryals and Payne 2001) in financial services than in most other industry sectors, the findings of our study with sample from the financial industry can provide some valuable and enlightening insights to organizations in other sectors.

By virtue of their business nature, banks, investment companies and insurance companies are mainly our sampled service firms characterized by a high degree of relationship orientation. It can therefore be logically reckoned that they have, at least, some understandings of CRM, making them suitable for our study. For example, the implementation of CRM is pervasive among financial institutions (Peppard 2000). Also as there is usually recurring interaction between the customer and the same contact person in the insurance industry, whole life insurance fulfills the conditions of a "personal relationship marketing context" in all respects *per se* (Crosby, Evans and Cowles 1990) and thus lends itself particularly well to our research as the target industry exhibiting a high degree of relationship orientation. In addition, as observed by Verma (2001), banking, insurance and brokerage firms are some of the ones to benefit most from CRM, and thus our results would be very insightful and useful to them.

The survey was administered using a two-step procedure. In the first phase, a questionnaire entitled "Marketing Practice Survey" and a cover letter explaining the purpose of the survey were mailed to "The General Manager" of selected organizations based on a random sampling from a database provided in the Business Directory of Hong Kong (2000/2001). In an effort to solicit a high level of participation, respondents were offered an executive summary of the findings upon completion of the study. Moreover, all respondents were assured that their responses would be kept confidential. The assurance of confidentiality is necessary as Heneman (1974) has demonstrated that respondents tend to provide unbiased responses when anonymity is assured.

In the second phase, a follow-up letter with a questionnaire was mailed five weeks later, which reminded participants to complete and return the survey within the pre-specified time period. To sum up, questionnaires were mailed to a random sample of 1,223 service firms. A total of 215 completed surveys were returned, yielding a usable response rate of 17.6 percent (215/1223). The characteristics of the respondents and their affiliated firms are presented in Table 4.2.

Table 4.2
**Characteristics of Firms/Respondents**

| Characteristics | N | % |
|---|---|---|
| **(I) Firm** | | |
| **Industry** | | |
| Banking | 59 | 27.6 |
| Investment Companies | 96 | 44.9 |
| Insurance | 33 | 15.4 |
| Others | 9 | 4.2 |
| No response | 17 | 7.9 |
| **Country of Origin of the Firm** | | |
| Mainly Local (HK) Capital | 91 | 42.5 |
| Mainly Overseas Capital | 98 | 45.8 |
| Mainly Mainland China Capital | 5 | 2.3 |
| No response | 20 | 9.3 |
| **Size of the Firm (Number of Total Full-Time Employees)** | | |
| <50 | 114 | 53.3 |
| 50-100 | 28 | 13.1 |
| 101-200 | 9 | 4.2 |
| >200 | 48 | 22.4 |
| No response | 15 | 7.0 |
| **Nature of the Firm's Major Customers** | | |
| Business Firms/Organizations | 84 | 39.3 |
| Individual Customers | 92 | 43.0 |
| Both | 23 | 10.7 |
| No response | 15 | 7.0 |
| **Current Stage of the Firm's E-business Operation** | | |
| No web site | 59 | 27.6 |
| Web site without selling | 79 | 36.9 |
| Web site with selling | 38 | 17.8 |
| Web site with selling and personalization | 22 | 10.3 |
| No response | 16 | 7.5 |
| **Approximate Percentage of Sales Generated from the Internet Channel** | | |
| <10% | 150 | 70.1 |
| 10%-30% | 14 | 6.5 |
| 31%-50% | 1 | 0.5 |
| >50% | 2 | 0.9 |
| No response | 47 | 22.0 |

**Table 4.2 (continued)**
**Characteristics of Firms/Respondents**

| Characteristics | N | % |
|---|---|---|
| **(II) Personal** | | |
| **Age (Years)** | | |
| 25-35 | 54 | 25.2 |
| 36-45 | 68 | 31.8 |
| Above 45 | 73 | 34.1 |
| No response | 19 | 8.9 |
| **Education Level** | | |
| Secondary/High School | 29 | 13.6 |
| University/Post-graduate | 168 | 78.5 |
| No response | 17 | 7.9 |
| **Position Held** | | |
| Top Manager | 110 | 51.4 |
| Middle-level Manager | 86 | 40.2 |
| No response | 18 | 8.4 |

As in any type of survey research, non-response bias is possible in this study. Two methods have been suggested to test for non-response bias in mail surveys (Armstrong and Overton 1977). The first approach is characterized by interviewing a sample of non-respondents to determine the presence and/or effect of a non-response bias. Such action was not taken due to difficulties in maintaining confidentiality, which had been promised to respondents and the impracticability of such an endeavor. The second approach is based on the "interest hypothesis", which assumes that the non-respondents are like the late respondents. Using this method, early respondents were compared with late respondents along all the response items for each of the scales. The chi-square tests show that, except the difference on education level, no significant differences were found between the early and late respondents on firm and personal characteristics (see Table 4.3). In addition, t-test results indicate that there were no significant differences between the early and late respondents on CRM orientation and performance measures (see Table 4.4). It can thus be concluded that non-response bias is probably not a serious problem in this study.

**Table 4.3**
**A Comparison between Early Respondents and Late Respondents on Personal and Firm Characteristics (Chi-square Test Results)**

| | Early Respondents (Percentages) | Late Respondents (Percentages) |
|---|---|---|
| **Industry (n.s.)** | | |
| Banking | 30.2 | 29.6 |
| Investment Companies | 49.1 | 48.1 |
| Insurance | 17.2 | 16.0 |
| Others | 3.4 | 6.2 |
| **Country of Origin of the Firm (n.s.)** | | |
| Mainly Local (HK) Capital | 44.3 | 50.6 |
| Mainly Overseas Capital | 54.8 | 44.3 |
| Mainly Mainland China Capital | 0.9 | 5.1 |
| **Size of the Firm (n.s.)** | | |
| <50 | 52.1 | 64.6 |
| 50-100 | 14.5 | 13.4 |
| 101-200 | 5.1 | 3.7 |
| >200 | 28.2 | 18.3 |
| **Nature of the Firm's Major Customers (n.s.)** | | |
| Business Firms/Organizations | 39.7 | 45.8 |
| Individual Customers | 50.0 | 41.0 |
| Both | 10.3 | 13.3 |
| **Current Stage of the Firm's E-business Operation (n.s.)** | | |
| No web site | 31.0 | 28.0 |
| Web site without selling | 36.2 | 45.1 |
| Web site with selling | 19.0 | 19.5 |
| Web site with selling and personalization | 13.8 | 7.3 |
| **Approximate Percentage of Sales Generated from the Internet Channel (n.s.)** | | |
| <10% | 90.6 | 88.7 |
| 10%-30% | 8.3 | 8.5 |
| 31%-50% | 0.0 | 1.4 |
| >50% | 1.0 | 1.4 |

**Table 4.3 (continued)**
**A Comparison between Early Respondents and Late Respondents on Personal and Firm Characteristics (Chi-square Test Results)**

| | | Early Respondents (Percentages) | Late Respondents (Percentages) |
|---|---|---|---|
| **Age (Years) (n.s.)** | | | |
| | 25-35 | 22.8 | 34.6 |
| | 36-45 | 36.0 | 33.3 |
| | Above 45 | 41.2 | 32.1 |
| **Education Level [b]** | | | |
| | Secondary/High School | 19.1 | 8.5 |
| | University/Post-graduate | 80.9 | 91.5 |
| **Position Held (n.s.)** | | | |
| | Top Manager | 61.2 | 48.8 |
| | Middle-level Manager | 38.8 | 51.3 |

b: Statistically significant at .05 level

**Table 4.4**
**A Comparison between Early Respondents and Late Respondents on CRM Orientation and Performance Measures (T-test Results)**

| | Early Respondents | Late Respondents | t-value |
|---|---|---|---|
| **Focusing on Key Customers (n.s.)** | 4.5863 | 4.5205 | 0.548 |
| **Organizing around CRM (n.s.)** | 4.1441 | 4.0776 | 0.512 |
| **Knowledge Management (n.s.)** | 4.8048 | 4.7530 | 0.550 |
| **Technology-based CRM (n.s.)** | 4.1603 | 4.0963 | 0.505 |
| **CRM Orientation (n.s.)** | 4.4143 | 4.3425 | 0.705 |
| **Marketing Performance (n.s.)** | 4.6839 | 4.4919 | 1.889 |
| **Financial Performance (n.s.)** | 3.9892 | 3.8333 | 1.091 |
| **Overall Performance (n.s.)** | 4.3366 | 4.1656 | 1.599 |

## 4.5 Identification of the Underlying Factor Structure

In order to identify the underlying factor structure for the data collected in our main study, we conducted a factor analysis on the 23 items for our scale. Principal component analysis with oblique rotation again reproduced the same four-factor solution, as obtained in the pretest section (see Table 4.5). Not only does the result conform to our conceptualization on CRM orientation, but it also lends support to the stability of factor structure underlying our proposed scale.

**Table 4.5**
**Results of Exploratory Factor Analysis**

| Variables | Organizing around CRM | Knowledge Management | Technology-based CRM | Focusing on Key Customers |
|---|---|---|---|---|
| Customer-centric performance standards are established and monitored at all customer touchpoints. | .767 | | | |
| My organization has established clear business goals related to customer acquisition, development, retention and reactivation. | .747 | | | |
| My organization has the sales and marketing expertise and resources to succeed in customer relationship management (CRM). | .696 | | | |
| Our employee training programs are designed to develop the skills required for acquiring and deepening customer relationships. | .625 | | | |
| Employee performance is measured and rewarded based on meeting customer needs and on successfully serving the customer. | .605 | | | |
| Our organizational structure is meticulously designed around our customers. | .514 | | | |
| My organization commits time and resources in managing customer relationships. | .500 | | | |
| Customers can expect prompt service from employees of my organization. | | .780 | | |
| My organization fully understands the needs of our key customers. | | .754 | | |
| My organization provides channels to enable ongoing, 2-way communication with our key customers and us. | | .623 | | |
| Customers can expect that my organization's employees are not too busy to respond to customer requests promptly. | | .581 | | |
| My organization's employees are willing to help customers. | | .579 | | |
| Customers can expect exactly when services will be performed. | | .479 | | |
| My organization has the right software to serve our customers. | | | .737 | |
| My organization has the right hardware to serve our customers. | | | .713 | |
| My organization has the right technical personnel to provide technical support for the utilization of computer technology in building customer relationships. | | | .709 | |
| My organization maintains a comprehensive database of our customers. | | | .693 | |
| Individual customer information is available at every point of contact. | | | .682 | |
| My organization provides customized services and products to our key customers. | | | | .717 |
| Through ongoing dialogue, we work with individual key customer to customize our offerings. | | | | .697 |
| My organization makes an effort to find out what our key customer needs. | | | | .597 |
| When my organization finds that customers would like to modify a product/service, the departments involved make coordinated efforts to do so. | | | | .587 |
| All people in my organization treat customers with great care. | | | | .494 |
| **Eigenvalue** | **4.116** | **3.767** | **3.562** | **3.263** |
| **Percentage of variance** | **17.894** | **16.378** | **15.487** | **14.188** |

## 4.6 Item Analysis and Reliability Assessment

In an attempt to reduce the likelihood of capitalizing on chance during scale purification, the sample is split into two sub-samples (DeVellis 1991). The first sub-sample serves as the measure development sample. The second sub-sample is then used to cross-validate the measure. We thus randomly split the Hong Kong sample into two halves and used the first half for development purposes and the remaining half for validation. The stability of the purified measures was then assessed with the validation sub-sample.

Table 4.6 reports the reliability of the CRM orientation scale using Cronbach's coefficient alpha (Churchill 1979; Nunnally 1978), the reliability coefficient most often used by marketing researchers (Gerbing and Anderson 1988; Odin, Odin and Valette-Florence 2001). As far as individual subscales are concerned, the reliability coefficient of the development sub-sample met the standard of 0.7, the threshold as suggested by Nunnally (1978) and Hinkin (1998). The validation sub-sample portrays similar and consistent results. Thus, these findings augment the case for scale reliability.

**Table 4.6**
**Scale Reliabilities and Associated Statistics**

| | | Development Sub-sample (N = 103) | | | | Validation Sub-sample (N = 96) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | No. Items | α | Mean* | Std. Dev. | Item-Total Corr. | α | Mean* | Std. Dev. | Item-Total Corr. |
| **Focusing on Key Customers** | **5** | **0.8524** | **4.5650** | **0.8310** | **0.6654** | **0.8863** | **4.5526** | **0.8440** | **0.7261** |
| **Organizing around CRM** | **7** | **0.8971** | **4.0770** | **0.9260** | **0.7007** | **0.8983** | **4.1592** | **0.8676** | **0.7039** |
| **Knowledge Management** | **6** | **0.7964** | **4.8414** | **0.5920** | **0.5529** | **0.8696** | **4.7216** | **0.7139** | **0.6737** |
| **Technology-based CRM** | **5** | **0.8326** | **4.1089** | **0.8642** | **0.6354** | **0.8786** | **4.1604** | **0.8886** | **0.7127** |
| **CRM Orientation** | **23** | **0.9394** | **4.3870** | **0.6872** | **0.6115** | **0.9525** | **4.3828** | **0.7180** | **0.6697** |

*Mean Scale Score = Sum of items/ Number of Items

## 4.7 Validity Assessment

Construct validity can be succinctly defined as "the extent to which the scale measures what it is purported to measure" (Hinkin 1998). It essentially forms the link between theory and psychometric measurement, and is regarded as a pre-requisite for the development of quality measures and even the ultimate objective of the scale development. Evidence of construct validity is demonstrated when the pattern of correlations among variables conforms to what is predicted by theory (Cronbach 1970, p.143; Kerlinger 1973, p.463). In this section, convergent, discriminant and nomological validities are examined.

### 4.7.1 Convergent Validity

Convergent validity refers to the degree of agreement in two or more measures of the same construct. In other words, the responses from alternative measurements of the same construct must share variance (Bacharach 1989). Evidence of convergent validity in the CRM orientation scale was examined through simple correlations among the four components of the CRM orientation scale. Results reported in Table 4.7 show that correlations among the four components of CRM orientation range from 0.536 to 0.792 across the two samples and all correlations are significant at $p < 0.01$. In addition, each of the components is also highly correlated (0.769 and above) with the overall measure of CRM orientation. The pattern of correlation indicates that the four components are convergent on a common construct, thus providing evidence to support convergent validity in the measurement of CRM orientation.

**Table 4.7**
**Correlations Among the Four Components of CRM Orientation**

**(I) Development Sub-sample (N=103)**

| | Focusing on Key Customers | Organizing around CRM | Knowledge Management | Technology-based CRM | CRM Orientation |
|---|---|---|---|---|---|
| Focusing on Key Customers | 1.000 | | | | |
| Organizing around CRM | .755** | 1.000 | | | |
| Knowledge Management | .682** | .555** | 1.000 | | |
| Technology-based CRM | .603** | .698** | .536** | 1.000 | |
| CRM Orientation | .887** | .900** | .769** | .845** | 1.000 |

**: Statistically significant at .01 level

**(II) Validation Sub-sample (N=96)**

| | Focusing on Key Customers | Organizing around CRM | Knowledge Management | Technology-based CRM | CRM Orientation |
|---|---|---|---|---|---|
| Focusing on Key Customers | 1.000 | | | | |
| Organizing around CRM | .743** | 1.000 | | | |
| Knowledge Management | .792** | .759** | 1.000 | | |
| Technology-based CRM | .577** | .669** | .613** | 1.000 | |
| CRM Orientation | .881** | .903** | .888** | .827** | 1.000 |

**: Statistically significant at .01 level

**Table 4.7 (continued)**
**Correlations Among the Four Components of CRM Orientation**

**(III) Overall Sample (N=199)**

| | Focusing on Key Customers | Organizing around CRM | Knowledge Management | Technology-based CRM | CRM Orientation |
|---|---|---|---|---|---|
| Focusing on Key Customers | 1.000 | | | | |
| Organizing around CRM | .748** | 1.000 | | | |
| Knowledge Management | .736** | .648** | 1.000 | | |
| Technology-based CRM | .590** | .683** | .571** | 1.000 | |
| CRM Orientation | .884** | .898** | .828** | .836** | 1.000 |

**: Statistically significant at .01 level

### 4.7.2 Discriminant Validity

Discriminant validity indicates the degree to which measures of conceptually distinct constructs differ. In our survey, we incorporated a scale for measuring market orientation (MO) (Narver and Slater 1990) into our questionnaire. This scale measures three behavioral components of an organization, namely customer orientation, competitor orientation and interfunctional coordination. In order to test for discriminant validity, a simple factor test was performed on the CRM orientation and MO data collected simultaneously in the survey (see Podsakoff and Organ 1986; Sin et al. 2000). The CRM orientation subscales and MO subscales were factor analyzed together on the development and validation sub-samples independently, using principal component analysis. As portrayed in Table 4.8, the analyses produced two factors with eigenvalues greater than unity for each sub-sample, accounting for a total of 81.214 percent and 82.334 percent of the variance for the development and validation sub-samples, respectively. In addition, a very clear distinction results from each sub-sample because the CRM orientation subscales loaded on one factor and the MO subscales loaded on another factor. These results evince that the respondents in each sub-sample clearly discriminated between the CRM orientation and MO items, suggesting evidence to support discriminant validity in the measurement of CRM orientation.

**Table 4.8**
**Results of Single-Factor Test for Discriminant Validity**

**(I) Development Sub-sample (N=103)**

| Variables | Factor 1 | Factor 2 |
|---|---|---|
| Interfunctional Coordination | .892 | |
| Competitor Orientation | .886 | |
| Customer Orientation | .832 | |
| Knowledge Management | | .928 |
| Focusing on Key Customers | | .665 |
| Technology-based CRM | | .570 |
| Organizing around CRM | | .448 |
| **Eigenvalue** | **3.582** | **2.103** |
| **Percentage of variance** | **51.167** | **30.047** |

**(II) Validation Sub-sample (N=96)**

| Variables | Factor 1 | Factor 2 |
|---|---|---|
| Competitor Orientation | .902 | |
| Interfunctional Coordination | .834 | |
| Customer Orientation | .809 | |
| Technology-based CRM | | .891 |
| Organizing around CRM | | .666 |
| Knowledge Management | | .664 |
| Focusing on Key Customers | | .636 |
| **Eigenvalue** | **3.244** | **2.520** |
| **Percentage of variance** | **46.337** | **35.997** |

**Table 4.8 (continued)**
**Results of Single-Factor Test for Discriminant Validity**

**(III) Overall Sample (N=199)**

| Variables | Factor 1 | Factor 2 |
|---|---|---|
| Competitor Orientation | .886 | |
| Interfunctional Coordination | .860 | |
| Customer Orientation | .798 | |
| Knowledge Management | | .870 |
| Focusing on Key Customers | | .740 |
| Technology-based CRM | | .711 |
| Organizing around CRM | | .594 |
| **Eigenvalue** | **3.071** | **2.606** |
| **Percentage of variance** | **43.872** | **37.226** |

### 4.7.3 Nomological Validity

Nomological validity shows the ability of a scale to behave as expected with respect to some other constructs to which it is related (Churchill 1995). There are well-grounded theoretical reasons to expect a positive association between CRM orientation and business performance, as explicated in details previously (e.g., Payne 2000; Ryals and Payne 2001). Thus, in the current context, nomological validity would be demonstrated if the scores of the measures of CRM orientation are positively and significantly correlated with business performance.

Given that no simple indicator can adequately capture the multifaceted nature of business performance, two broad categories of measures were used in this study. The first measure is related to marketing performance (trust, customer satisfaction and customer retention) and the second measure is related to financial performance (return on investment, return on sales, sales growth and market share). In addition, since business performance can have various meanings (e.g., short- or long-term growth, financial or organizational benefits), it is broadly viewed from two perspectives in the previous literature. First, there is the subjective concept, which is primarily concerned with the performance of firms relative to that of their competitors (Golden 1992). The second method is the objective concept, which is based on absolute measures of performance (Chakravarthy 1986; Cronin and Page 1988).

For this study, a subjective rather than an objective approach was used for the following two reasons. First, company information is usually classified as highly confidential in Chinese societies, like Hong Kong. Respondents may be reluctant to provide hard financial data. Second, past studies have reported a strong association between objective measures and subjective responses (Dawes 1999; Jaworski and Kohli 1993; Pearce et al. 1987; Robinson and Pearce 1988; Venkatraman and Ramanujam 1986). To measure business performance, each respondent in this study was asked to evaluate his/her company's current business performance in the local market relative to its major competitors with respect to the following seven items: (1) customer retention, (2) trust, (3) customer satisfaction, (4) market share, (5) return on sales, (6) return on investment and (7) sales growth. Reponses were made on a six-point scale ranging from "better than" to "worse than" major competitors. Using factor analysis, two factors with eigenvalues greater than unity were produced. The first factor was named "Financial Performance" and the second factor was named "Marketing Performance" (see Table 4.9). The reliabilities for these two factors were 0.8791 and 0.7450 respectively.

**Table 4.9**
**Results of Single-Factor Test for Business Performance Variables (Dependent Variables)**

| Variables | Financial Performance | Marketing Performance |
|---|---|---|
| Return on Sales (ROS) | .916 | |
| Return on Investment (ROI) | .906 | |
| Sales Growth | .771 | |
| Market Share | .723 | |
| Trust | | .878 |
| Customer Satisfaction | | .813 |
| Customer Retention | | .640 |
| **Eigenvalue** | **3.050** | **2.057** |
| **Percentage of variance** | **43.573** | **29.382** |

Table 4.10 depicts the correlation coefficients between the components of CRM orientation and the performance measures. All coefficients are positive and significant (at $p < 0.01$), a much greater proportion than would be anticipated by chance (Cross and Chaffin 1982). Thus, in accord with what we have discussed and suggested, CRM orientation has a positive association with business performance and the nomological validity of the proposed measures is in place.

**Table 4.10**
**Correlations between CRM Orientation and Business Performance Variables**

**(I) Development Sub-sample (N=103)**

| | CRM Orientation | Marketing Performance | Financial Performance | Overall Performance |
|---|---|---|---|---|
| CRM Orientation | 1.000 | | | |
| Marketing Performance | .613** | 1.000 | | |
| Financial Performance | .557** | .539** | 1.000 | |
| Overall Performance | .658** | .828** | .919** | 1.000 |

**: Statistically significant at .01 level

**(II) Validation Sub-sample (N=96)**

| | CRM Orientation | Marketing Performance | Financial Performance | Overall Performance |
|---|---|---|---|---|
| CRM Orientation | 1.000 | | | |
| Marketing Performance | .668** | 1.000 | | |
| Financial Performance | .396** | .491** | 1.000 | |
| Overall Performance | .592** | .820** | .901** | 1.000 |

**: Statistically significant at .01 level

**Table 4.10 (continued)**
**Correlations between CRM Orientation and Business Performance Variables**

**(III) Overall Sample (N=199)**

| | CRM Orientation | Marketing Performance | Financial Performance | Overall Performance |
|---|---|---|---|---|
| CRM Orientation | 1.000 | | | |
| Marketing Performance | .637** | 1.000 | | |
| Financial Performance | .476** | .514** | 1.000 | |
| Overall Performance | .622** | .821** | .912** | 1.000 |

**: Statistically significant at .01 level

In summary, we find evidence of convergent validity, discriminant validity, and nomological validity, and thus we find support for the construct validity of the four-component model of CRM orientation. We next examine the relative impacts of CRM orientation (CRMO) and market orientation (MO) on business performance.

## 4.8 The Relative Impacts of CRM Orientation and Market Orientation on Business Performance

During the decade of the 1990s, a steady stream of research has focused on the impact of market orientation upon business performance. A summary of past empirical studies on the relationship between market orientation and business performance has been presented in Sin et al.'s study (2000). Findings revealed that past studies (e.g., Jaworski and Kohli 1993; Kumar, Subramanian and Yauger 1998; Narver and Slater 1990; Pelham 1997; Pelham and Wilson 1996; Raju, Lonial and Gupta 1995; Ruekert 1992; Slater and Narver 1994; Van Egeren and O'Connor 1998) found unequivocal support for a positive association between market orientation and business performance. Performance measures used in these studies ranged from hard measures such as return on investment, sales growth and market share to soft measures including organizational commitment and esprit de corps.

As the business environment changes in a dramatic manner and customer relationships are becoming increasingly important, firms must practice CRM to compete effectively. It can therefore be understood that market orientation may be a necessary but no longer a sufficient condition for firms to remain successful. Thus, additional and interesting issues addressed in this study are: Does the CRM orientation concept proposed in this study make any significant contribution in explaining variation in business performance in addition to market orientation? And what are the relative impacts of market orientation and CRM orientation on business performance across different types of industry?

To provide answers to the above questions, a stepwise regression analysis with business performance as dependent variable and CRM orientation and market orientation as predicting variables was run. In addition, the overall sample was divided into three sub-samples: Banking industry, investment industry and insurance industry with 59, 96 and 33 as their respective sizes. Regressions were performed on the overall sample and each of these sub-samples separately. A stepwise regression procedure of the SPSS version 8.0 was used to allow the predicting variables to enter or leave the regression equations, as they were significant. Indeed, as noted by Frees (1996), by grouping the data set into sub-sets by industry, the stepwise procedure can isolate how the different independent variables affect the dependent variable in a controlled manner.

The first set of regression analyses were performed on the overall sample. Control variables like firm size, country of origin, nature of major customers and industry were included in our analysis. Results in Table 4.11 show that both CRM orientation and market orientation are significant in explaining the variations in overall performance, marketing performance, as well as financial performance with $R^2$ ranging from 0.377 to 0.503. A further inspection reveals that market orientation has a larger impact on overall performance and financial performance, while CRM orientation is a dominant variable in explaining marketing performance. In addition, firm size, one of the control variables, has significant impacts on overall performance and financial performance.

Additional regression analyses were performed on three industries separately. Three control variables, namely firm size, country of origin and nature of major customers, were incorporated into these analyses. As shown in Table 4.11, the following three interesting findings are observed. First, when financial performance is posited as a dependent variable, market orientation plays a more important role than CRM orientation across the three different industries. Second, CRM orientation is determinant in predicting marketing performance across the three industries. Third, nature of the firm's major customers significantly impacts marketing performance across the three different industries. We now examine the relative impacts of these two predicting variables on the performance measures in different industries.

For banking industry, CRM orientation is a dominant variable in predicting marketing performance, whereas market orientation is more dominant in predicting financial performance. However, when overall performance is analyzed as a dependent variable, CRM orientation and market orientation enter into the regression with almost equal beta weighting. In addition, nature of the firm's major customers has significant impacts on both marketing performance and overall performance.

For investment companies, though market orientation is more dominant in predicting all performance variables, CRM orientation and market orientation enter into the regression with almost equal beta weighting when marketing performance is analyzed as a dependent variable. It lends support to our above notion that CRM orientation is determinant in predicting marketing performance across the three industries. Moreover, nature of the firm's major customers significantly impacts marketing performance, while firm size significantly impacts both financial performance and overall performance.

For insurance industry, an intriguing pattern is depicted. When marketing performance is analyzed as a dependent variable, CRM orientation is found to be more dominant, as market orientation cannot even enter the regression. However, this pattern is reverse if financial performance and overall performance are posited as dependent variables; that is, market orientation dominates, as CRM orientation cannot enter the regression. In addition, nature of the firm's major customers significantly impacts both marketing performance and overall performance.

**Table 4.11**
**Effects of CRM Orientation and Market Orientation: Estimated Standardized Regression Coefficients**

**(I) Overall Sample (N=199)**

| | Dependent Variables | | |
|---|---|---|---|
| Independent Variables | Marketing Performance | Financial Performance | Overall Performance* |
| CRM Orientation | .526[a] | .230[a] | .411[a] |
| Market Orientation | .429[a] | .497[a] | .532[a] |
| Firm Size | | .207[a] | .163[a] |
| $R^2$ | .465 | .377 | .503 |

* Overall performance is the average of the seven individual performance measures
a: $p<.01$

**(II) Banking Sub-sample (N=59)**

| | Dependent Variables | | |
|---|---|---|---|
| Independent Variables | Marketing Performance | Financial Performance | Overall Performance* |
| CRM Orientation | .583[a] | .230[b] | .429[a] |
| Market Orientation | .272[a] | .474[a] | .448[a] |
| Nature of Major Customers | .244[b] | | .241[b] |
| $R^2$ | .495 | .313 | .473 |

* Overall performance is the average of the seven individual performance measures
a: $p<.01$
b: $p<.05$

**Table 4.11 (continued)**
**Effects of CRM Orientation and Market Orientation: Estimated Standardized Regression Coefficients**

**(III) Investment Companies Sub-sample (N=96)**

| | Dependent Variables | | |
|---|---|---|---|
| Independent Variables | Marketing Performance | Financial Performance | Overall Performance* |
| CRM Orientation | .557[a] | .217[b] | .425[a] |
| Market Orientation | .572[a] | .450[a] | .557[a] |
| Firm Size | | .232[b] | .167[b] |
| Nature of Major Customers | .189[b] | | |
| $R^2$ | .565 | .320 | .507 |

* Overall performance is the average of the seven individual performance measures
a: p<.01
b: p<.05

**(IV) Insurance Sub-sample (N=33)**

| | Dependent Variables | | |
|---|---|---|---|
| Independent Variables | Marketing Performance | Financial Performance | Overall Performance* |
| CRM Orientation | .338[b] | | |
| Market Orientation | | .684[a] | .445[a] |
| Nature of Major Customers | -.423[b] | | -.382[b] |
| $R^2$ | .400 | .467 | .477 |

* Overall performance is the average of the seven individual performance measures
a: p<.01
b: p<.05

# CHAPTER FIVE

## DISCUSSION

This paper reports an exploratory study on the development and validation of a measure of CRM orientation. We have first provided a clear conceptualization of the construct, CRM orientation, and then developed a reliable and valid measure of it. The psychometric properties of the proposed scale have been rigorously tested, and in terms of reliability and validity, results are shown to be encouraging. In addition, we have exemplified the utility of this scale by depicting its impact on business performance, relative to the well-documented market orientation, across three different industries. Despite the increasing research attention paid to the concept of CRM, to date, there has been no valid and comprehensive operational measure of CRM. To the very best of our knowledge, this is the first study to provide a comprehensive, psychometrically sound, and operationally valid measure of a firm's CRM orientation.

### 5.1 Academic and Managerial Contributions

The present study makes both academic and practical contributions, and suggests several applications for the research. Our academic contribution is to offer a significant advance to the current literature of customer relationship management (CRM). First, we explore the nature of CRM, provide a clear conceptualization of the construct, CRM orientation, and then develop a conceptual model with four behavioral components, namely, focusing on key customers, organizing around CRM, knowledge management and technology-based CRM. Though some of the ideas expressed in this conceptual model may be familiar to marketers, its value is in integrating these various notions to provide a more comprehensive and holistic picture of CRM orientation. Second, we provide empirical evidence on the testable scales that are both reliable and valid. This gives a new theoretical insight into how CRM orientation can be generated. Third, the model was empirically tested and found to have substantial association with a firm's business performance, indicated by customer retention, trust, customer satisfaction, market share, sales growth, ROI and ROS. Fourth, we demonstrate that the CRM orientation concept proposed in this study makes significant contributions in explaining variations in business performance in addition to market orientation. Our conceptualization and empirical findings are encouraging. We have provided a useful foundation on which further theoretical and empirical research in the field of CRM can be built.

One of our managerial contributions hinges on our validation of the long-held belief that CRM is a critical success factor for business performance. Firms are therefore well assured of their efforts in implementing CRM, despite those figures depicting the high failure rates of CRM initiatives. Another marked contribution to managers in this study is that we provide managers with a valid and reliable scale to measure and monitor the level of CRM orientation in their affiliated firms.

## 5.2 Implications

As CRM implementation is a valuable undertaking for superior business performance, firms are increasingly driven by the urge to focus more on customers as important assets and to practice CRM. Our conceptualization and our proposed scale provide a comprehensive checklist for firms to properly embark on CRM implementation.

Firms wishing to improve their relationships with customers need constantly to monitor their behaviors and internal processes. Our proposed scale can serve as a tool for such purposes. Moreover, our proposed scale can be used as a diagnostic tool to identify areas where specific improvements are needed, and to pinpoint aspects of the firm's CRM that require work. Once identified, those areas lacking sufficient CRM efforts should be improved in due manner so as to ensure that CRM resources are properly allocated.

For the results of an exercise to be meaningful, some benchmarks or norms should be used as a basis for comparison. For example, external benchmarking at the industry level can provide a more meaningful comparison with major competitors. In addition, periodic measurement of a firm's CRM orientation can help managers track changes over time.

Other than the applicability of the model in the monitoring process, the four components in the CRM orientation model may serve training needs by helping human resources managers develop appropriate training programs that can help improve the staff's understanding of the activities involved in implementing CRM. Furthermore, top management may use this framework to develop relevant and effective marketing strategies and tactics. Functional managers can also use the framework to set clear policies that develop and consider CRM orientation as a necessary and essential business process rather than a burden on the staff. Changing the corporate culture and reward system accordingly reinforces behaviors that create strong CRM, and should also be considered.

There are also a number of specific implications geared towards different industries. For banking industry, CRM orientation appears to be a pivotal strategy—It has more marked impacts on marketing performance as well as overall performance. In nowadays banking industry, priority banking has been offered to selected key customers so as to enhance the relationships with them. It is evident that CRM orientation has been adopted in some forms in the banking industry. Banking managers are therefore urged to make their efforts in applying a CRM orientation to their affiliated banks, so as to keep abreast with the current trend. On the other hand, for investment companies, focus may be instead on market orientation, which is shown to have more significant impacts on all performance measures.

For insurance industry, if practitioners stress marketing performance more, they should be dedicated to a CRM orientation. If they put more emphasis on financial performance, they should be dedicated to a market orientation instead. As both performance measures are important, practitioners may feel puzzled with respect to which orientation they should focus on. We propose the adoption of a CRM orientation in such a dilemma. It is because when marketing performance like customer retention and customer satisfaction is improved, financial performance is likely to be improved accordingly: Through CRM, customer relationships can be effectively managed and nurtured as important assets in an effort to improve customer retention and thus profitability (e.g., Gruen, Summers and Acito 2000; Payne 2000; Ryals and Knox 2001; Ryals and Payne 2001; Sheth and Sisodia 2001).

## 5.3 Limitations

Although this research has provided relevant and interesting insights to the understanding of CRM, it is important to recognize limitations associated with this study. First, data in this study were obtained from services firms in Hong Kong financial industry. Although it can be said that the sample represents a cross-section of a large number of businesses, it would be useful to obtain a broader and wider sampling frame from other industries and other countries. Since respondents' perceptions, attitudes, and behaviors are influenced by their own inherent cultures, it would be useful to test whether the existing CRM orientation model can be generalized to situations in other countries. Replication of this study on a wider scale with different national cultures or business environments is essential in the generalization of the findings.

Second, cross-sectional data were used in this study. Consequently, the time sequence of the relationships between CRM orientation and business performance cannot be determined unambiguously. The results, therefore, may not be interpreted as proof of a causal relationship, but rather as lending support for a prior causal scheme. The development of a time-series database and testing of the CRM orientation association with performance in a longitudinal framework would provide more insights into probable causation.

## 5.4 Directions for Future Research

Our study represents a first attempt to build and test a conceptual framework of CRM orientation. The present findings are therefore indicative rather than conclusive. However, this study suggests, in addition to the preceding suggestions for future research design, some other future research directions to study CRM. First, it would be useful to assess the generalizability of the CRM model developed in this study to other contexts, such as CRM in the manufacturing sector. With more replicative and creative research, it is expected that a more comprehensive conceptual framework related to CRM can be developed in the future. In fact, Hunter (2001) argues that replication is desperately needed.

Second, although the results of this study do provide support that CRM orientation has a positive influence on business performance, it is important to note that business performance is a multidimensional construct that may be characterized in a number of ways, including effectiveness, efficiency and adaptability (Walker and Ruekert 1987). Therefore, it would be useful to explore the complexities of the relationship between CRM orientation and alternative dimensions of business performance in future studies.

Third, the determinants (i.e., antecedents) of CRM orientation also require both theoretical and empirical investigation; after all, managers need to know how they can be instrumental in shaping the CRM orientation of their firms.

Fourth, previous studies have suggested that differences in the market environments of different countries may influence the types of strategies developed and adopted by companies, as well as the impacts of these strategies on business performance (Douglas and Craig 1983; Douglas and Rhee 1989; Freeman and Schendel 1974; Manu 1992; Schneeweis 1983). Future studies should examine the moderating effect of environmental factors, such as market turbulence, competitive hostility and market growth, on the association between CRM orientation and business performance.

Fifth, another future research area is the examination of the moderating effect of product categories on the association between CRM orientation and business performance. In fact, Shanthakumar and Xavier (2001) doubt whether personalization is needed in all product categories. It is logical to reckon that commodity-type products like writing paper and plastic bags do not require a lot of suppliers' personalization. This limited scope of personalization may therefore weaken the link between CRM orientation and business performance.

Sixth, as nature of the firm's major customers impacts marketing performance across the three different industries, there may be interaction effects of the association between CRM orientation and business performance characterized by trust, customer retention and customer satisfaction. Future research can be cultivated in this respect.

Seventh, the respondents provided all the measures of the independent and dependent variables, and these measures were obtained at the same time using similar scaling procedures. Method variance, therefore, may have magnified the strength of some of the relationships. Statistical analysis using LISREL (Joreskog and Sorbom 1984) may provide an appropriate approach to handle this particular problem.

Finally, data for this study were collected by the key informant approach. Although managers as key informants are adequate sources for reliable and valid data (Tan and Litschert 1994), the information generated by a firm is not the only source of information about its level of CRM orientation. Clearly, it is important to contrast a firm's degree of CRM orientation as assessed by internal information (e.g., managers' responses to questionnaires as we have done in this study) with the firm's level of CRM orientation as perceived by its customers, competitors and distributors. This is possibly another challenging area of future research in CRM.

# Appendix I
# Questionnaire

The Chinese University of Hong Kong

**Questionnaire on Marketing Practices**

Hi! We are researchers from the Chinese University of Hong Kong, and are now conducting a study on the marketing practices of firms in Hong Kong. Your inputs are very important to our study. Your responses will be kept *strictly confidential* and will only be used in aggregated analyses. Thank you very much for your cooperation.

**Instructions:** The following sentences describe the practices of your company. Please circle the number that best reflects your opinions ("1" denotes "strongly disagree" while "6" denotes "strongly agree").

| | Strongly Disagree | | Strongly Agree |
|---|---|---|---|
| My organization fully understands the needs of our key customers. | 1 | 2 3 4 5 | 6 |
| Customers can expect prompt service from employees of my organization. | 1 | 2 3 4 5 | 6 |
| My organization provides channels to enable ongoing, 2-way communication with our key customers and us. | 1 | 2 3 4 5 | 6 |
| My organization maintains a comprehensive database of our customers. | 1 | 2 3 4 5 | 6 |
| My organization commits time and resources in managing customer relationships. | 1 | 2 3 4 5 | 6 |
| When my organization finds that customers would like to modify a product/service, the departments involved make coordinated efforts to do so. | 1 | 2 3 4 5 | 6 |
| My organization has the sales and marketing expertise and resources to succeed in customer relationship management (CRM). | 1 | 2 3 4 5 | 6 |
| Customer-centric performance standards are established and monitored at all customer touchpoints. | 1 | 2 3 4 5 | 6 |
| My organization has established clear business goals related to customer acquisition, development, retention and reactivation. | 1 | 2 3 4 5 | 6 |
| Our organizational structure is meticulously designed around our customers. | 1 | 2 3 4 5 | 6 |
| All people in my organization treat customers with great care. | 1 | 2 3 4 5 | 6 |
| My organization makes an effort to find out what our key customer needs. | 1 | 2 3 4 5 | 6 |
| My organization provides customized services and products to our key customers. | 1 | 2 3 4 5 | 6 |
| Through ongoing dialogue, we work with individual key customer to customize our offerings. | 1 | 2 3 4 5 | 6 |
| Our employee training programs are designed to develop the skills required for acquiring and deepening customer relationships. | 1 | 2 3 4 5 | 6 |
| Employee performance is measured and rewarded based on meeting customer needs and on successfully serving the customer. | 1 | 2 3 4 5 | 6 |
| My organization has the right hardware to serve our customers. | 1 | 2 3 4 5 | 6 |
| My organization's employees are willing to help customers. | 1 | 2 3 4 5 | 6 |
| Customers can expect that my organization's employees are not too busy to respond to customer requests promptly. | 1 | 2 3 4 5 | 6 |
| Customers can expect exactly when services will be performed. | 1 | 2 3 4 5 | 6 |
| My organization has the right software to serve our customers. | 1 | 2 3 4 5 | 6 |
| Individual customer information is available at every point of contact. | 1 | 2 3 4 5 | 6 |
| My organization has the right technical personnel to provide technical support for the utilization of computer technology in building customer relationships. | 1 | 2 3 4 5 | 6 |

**Instructions:** Please evaluate your company's performance in the following areas in comparison with your major competitors in your industry ("1" denotes "worse" while "6" denotes "better").

| | Worse than my competitors | | | | | Better than my competitors |
|---|---|---|---|---|---|---|
| Customer retention | 1 | 2 | 3 | 4 | 5 | 6 |
| Trust | 1 | 2 | 3 | 4 | 5 | 6 |
| Consumer satisfaction | 1 | 2 | 3 | 4 | 5 | 6 |
| Market share | 1 | 2 | 3 | 4 | 5 | 6 |
| Return on sales (ROS) | 1 | 2 | 3 | 4 | 5 | 6 |
| Return on investment (ROI) | 1 | 2 | 3 | 4 | 5 | 6 |
| Sales growth | 1 | 2 | 3 | 4 | 5 | 6 |

**Instructions:** Please indicate your level of agreement/disagreement on the following statements regarding your firm's strategic orientation using a 6-point scale. Circle "1" if you strongly disagree, circle "6" if you strongly agree, and so on.

| | Strongly Disagree | | Strongly Agree |
|---|---|---|---|
| Our salespeople regularly share information within our business concerning competitors' strategies. | 1 | 2 3 4 5 | 6 |
| Our business objectives are driven primarily by customer satisfaction. | 1 | 2 3 4 5 | 6 |
| We rapidly respond to competitive actions that threaten us. | 1 | 2 3 4 5 | 6 |
| We constantly monitor our level of commitment and orientation to serving customer's needs. | 1 | 2 3 4 5 | 6 |
| Our top managers from every function regularly visit our current and prospective customers. | 1 | 2 3 4 5 | 6 |
| We freely communicate information about our successful and unsuccessful customer experiences across all business functions. | 1 | 2 3 4 5 | 6 |
| Our strategy for competitive advantage is based on our understanding of customers' needs. | 1 | 2 3 4 5 | 6 |
| All of our business functions (e.g. marketing/sales, manufacturing, R & D, finance/accounting, etc.) are integrated in serving the needs of our target markets. | 1 | 2 3 4 5 | 6 |
| Our business strategies are driven by our beliefs about how we can create greater value for customers. | 1 | 2 3 4 5 | 6 |
| We measure customer satisfaction systematically and frequently. | 1 | 2 3 4 5 | 6 |
| We give close attention to after-sales service. | 1 | 2 3 4 5 | 6 |
| Top management regularly discusses competitors' strengths and strategies. | 1 | 2 3 4 5 | 6 |
| All of our managers understand how everyone in our business can contribute to creating customer value. | 1 | 2 3 4 5 | 6 |
| We target customers where we have an opportunity for competitive advantage. | 1 | 2 3 4 5 | 6 |
| We share resources with our business units. | 1 | 2 3 4 5 | 6 |

*Personal Particulars*

1. Age:
- ❑ Under 25 ❑ 25-35 ❑ 36-45 ❑ Above 45

2. Education Level:
- ❑ Primary or below ❑ Secondary/High School ❑ University/Post-graduate

3. Position Held:
- ❑ Top Manager ❑ Middle-level Manager ❑ Supervisor
- ❑ Others: ________

4. Business Nature of Your Firm:
- ❑ Construction ❑ Manufacturing ❑ Transportation ❑ Communications ❑ Utilities
- ❑ Wholesale ❑ Retail Trade ❑ Banking ❑ Finance ❑ Insurance
- ❑ Government ❑ Real estate ❑ Hotel ❑ Travel ❑ Others: ________

5. Country of Origin of Your Firm:
- ❑ Mainly Local (HK) Capital ❑ Mainly Mainland China Capital ❑ Mainly Overseas Capital
- ❑ Others: ________

6. Size of Your Firm (Number of Total Full-Time Employees including Yourself):
- ❑ < 50 ❑ 50 – 100
- ❑ 101 – 200 ❑ > 200

7. Your Firm's Major Customers are:
- ❑ Business Firms/Organizations ❑ Individual Customers

8. You would classify Your Firm's Web Usage to be in:
- ❑ I: No Web Usage
- ❑ II: Some Web Usage; Just for Providing Information to the General Public with *No Transactions*
- ❑ III: Some Web Usage with Transactions
- ❑ IV: Web Usage Featured by Providing Personalized and Customized Services

9. Percentages (%) of Sales Generated from Your Firm's Website:
- ❑ < 10% ❑ 10%– 30%
- ❑ 31% – 50% ❑ > 50%

Any comments on this questionnaire:

________________________________________

________________________________________

Thank you for your kind response!

## Appendix II
## Customer Relationship Management Orientation Scale Items
## (After Purification)

Instructions: The following sentences describe the practices of your company. Please circle the number that best reflects your opinions ("1" denotes "strongly disagree" while "6" denotes "strongly agree").

**Focusing on Key Customers**

1. My organization provides customized services and products to our key customers.
2. Through ongoing dialogue, we work with individual key customer to customize our offerings.
3. When my organization finds that customers would like to modify a product/service, the departments involved make coordinated efforts to do so.
4. My organization makes an effort to find out what our key customer needs.
5. All people in my organization treat customers with great care.

**Organizing around CRM**

6. Customer-centric performance standards are established and monitored at all customer touchpoints.
7. My organization has established clear business goals related to customer acquisition, development, retention and reactivation.
8. My organization has the sales and marketing expertise and resources to succeed in customer relationship management (CRM).
9. My organization commits time and resources in managing customer relationships.
10. Employee performance is measured and rewarded based on meeting customer needs and on successfully serving the customer.
11. Our employee training programs are designed to develop the skills required for acquiring and deepening customer relationships.
12. Our organizational structure is meticulously designed around our customers.

**Knowledge Management**

13. My organization provides channels to enable ongoing, 2-way communication with our key customers and us.
14. My organization's employees are willing to help customers.
15. Customers can expect exactly when services will be performed.
16. Customers can expect that my organization's employees are not too busy to respond to customer requests promptly.
17. My organization fully understands the needs of our key customers.
18. Customers can expect prompt service from employees of my organization.

**Technology-based CRM**

19. My organization maintains a comprehensive database of our customers.
20. My organization has the right hardware to serve our customers.
21. My organization has the right software to serve our customers.
22. My organization has the right technical personnel to provide technical support for the utilization of computer technology in building customer relationships.
23. Individual customer information is available at every point of contact.

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